

**PART II**  
**of**  
**OFFICIAL STATEMENT**  
**of**  
**MAINE GOVERNMENTAL FACILITIES AUTHORITY**  
**relating to its**  
**Lease Rental Revenue Bonds, Series 2013A**

**INFORMATION CONCERNING THE STATE OF MAINE**

The information concerning the State of Maine (the "State"), which is set forth in this Part II and which is comprised of the Supplement dated as of May 30, 2013 and Exhibits A through F listed on the page following such Supplement, consists of certain financial and economic information concerning the State which was furnished by the State and the other sources indicated herein as of May 14, 2013 and has been supplemented as of May 30, 2013. The information is authorized by the State to be distributed to prospective purchasers of the Maine Governmental Facilities Authority Lease Rental Revenue Bonds, Series 2013A (the "Bonds") and to the Municipal Securities Rulemaking Board for purposes of its Rule 15c2-12. This Part II may not be reproduced or used in whole or in part for any other purpose without the express written consent of the Treasurer of State.

Upon delivery of the Bonds, the Treasurer of State will deliver a certificate to the effect that to the best of her knowledge after reasonable investigation, this Part II does not include any untrue statement of a material fact and does not omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading.

Any statement in this Part II involving any matter of opinion, whether or not expressly so stated, is intended merely as an opinion and not as a representation of fact. The information and expressions of opinions in this Part II are subject to change without notice and neither the delivery of this Part II nor any sale of the Bonds described in this Official Statement in which this Part II is included shall, under any circumstances, create any implication that there has been no change in the affairs of the State, or its agencies, authorities and political subdivisions, since the date hereof.

STATE OF MAINE

By: /s/ Neria R. Douglass  
Neria R. Douglass  
Treasurer of State

Dated: May 30, 2013

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**SUPPLEMENT**  
**DATED MAY 30, 2013**  
**To**  
**THE STATE OF MAINE**  
**INFORMATION STATEMENT**

The information set forth below supplements the information which was provided by the State of Maine as of May 14, 2013 and which is set forth under the heading "STATE BUDGETS" in the State of Maine Information Statement which is Exhibit A of Part II of the Official Statement of the Maine Governmental Facilities Authority dated May 30, 2013. Such information set forth below should be read in conjunction with the information set forth under such heading.

**Significant Legislative Developments since May 14, 2013**

On May 23, 2013, the Legislature passed LD 1546, "An Act to Strengthen Maine's Hospitals, Increase Access to Health Care and Provide for a New Spirits Contract". However, the Governor vetoed the bill on May 28, 2013, and the Senate sustained the veto on May 29, 2013. Accordingly, it did not become law. The bill provided authorization for revenue bonds from liquor operations; payment of MaineCare debt to hospitals accrued prior to December 1, 2012; and expanded MaineCare coverage for qualifying adults up to 133% of poverty to receive 100% funding under the federal Affordable Care Act. The bill further provided that excess revenues from liquor sales after those payments were authorized for Drinking Water and Wastewater treatment revolving loans; Highway and bridge construction; Budget Stabilization Fund replenishment; and personnel positions in the Bureau of Family Independence of the Department of Health and Human Services. While the veto of the measure was sustained, the provisions for repayment of hospital debt with revenue bonds from liquor sales and enactment of MaineCare coverage under the Affordable Care Act are still under discussion in the Legislature.

A majority of members of the Joint Standing Committee on Taxation have proposed delaying changes in the income and estate tax code enacted by the 125<sup>th</sup> Legislature, and Democratic legislative leaders made similar statements to the press on May 29, 2013. The proposal is contained in a letter from the Taxation Committee to the Joint Standing Committee on Appropriations and Financial Affairs dated May 22, 2013. No official action by such Committee has yet been taken on this proposal. Delaying the tax code changes would restore approximately \$400 million to the biennial budget according to the letter.

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# STATE OF MAINE INFORMATION STATEMENT

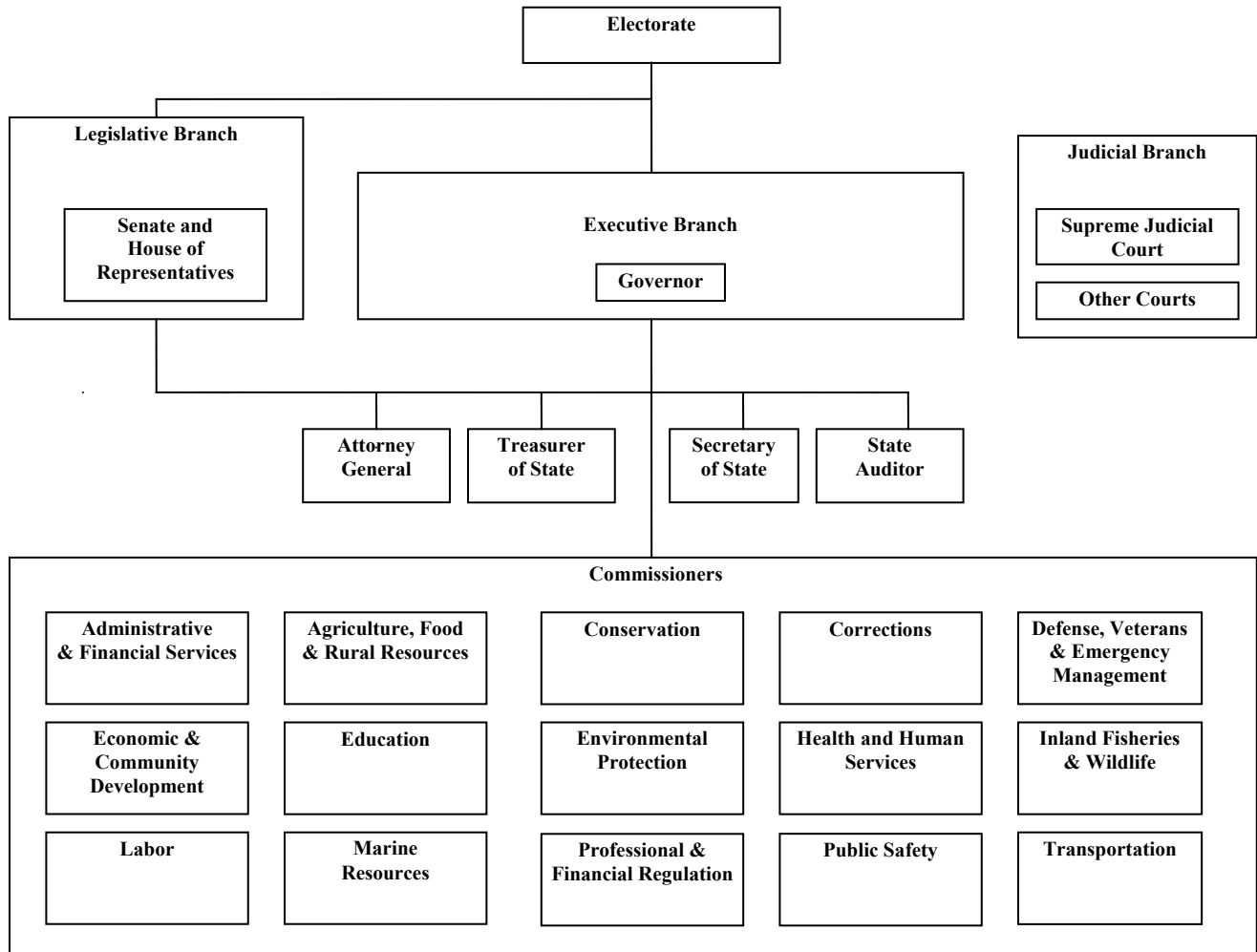
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## GOVERNMENTAL ORGANIZATION

The State of Maine (the “State” or “Maine”) became the twenty-third of the United States in 1820. The government of the State is divided into three distinct branches, the legislative, executive and judicial, as outlined in the chart below.



### Executive Branch

The Offices of Governor, Secretary of State, Treasurer of State and Attorney General are created by the Constitution of the State. The Governor is elected quadrennially at a general election and is limited to two consecutive four-year terms of office. The first term of the present Governor began in January 2011. The Secretary of State, Treasurer of State and Attorney General are each elected biennially by a joint ballot of the state Senators and Representatives in convention. A person may not serve more than four consecutive terms as either Secretary of State, Treasurer of State or Attorney General.

**Governor.** The executive power of the State, including the power to recommend measures to the Legislature, and the power to appoint, with the advice and consent of the Senate, certain officers of State government, is vested in the Governor. The Governor is responsible for the enforcement of the laws of the State.

**Governor's Cabinet.** The Governor's cabinet, which assists the Governor in administration and policymaking, includes the commissioners who head the 14 executive departments and who serve at the pleasure of the Governor.

**Secretary of State.** The Secretary of State, a constitutional officer, serves as executive head of the Department of the Secretary of State, and is authorized to keep his office at the seat of government, have the custody of the state seal and preserve all records in such office at the expense of the State; to keep and preserve the records of all the official acts and proceedings of the Governor, Senate and House of Representatives, and, when required, lay the same before either branch of the Legislature, and perform such other duties as are enjoined by the Constitution or required by law. The Secretary of State attends to the Governor, Senate and House of Representatives as they shall respectively require; appoints and renews all notaries public commissions; prepares commissions for appointees, and certificates of election to office for presentation to the Governor under the seal of the State; distributes printed information and instructions, ballots and blanks for all election returns required by law to clerks of the several towns; files articles of incorporation; files notices of certain security interests and performs other receiving, filing and recording functions for which fees may be collected; files rules adopted pursuant to the Administrative Procedure Act; annually registers motor vehicles and issues licenses for operators thereof; issues certificates of title, licenses new and used car dealers; maintains official state records considered to be permanently valuable; administers the State's address confidentiality program and the Office of the Small Business Advocate; and supervises the Department's subdivisions as required by statute and recommends to the Legislature such changes as may be required to modernize and improve the functions and services rendered by the Department.

**Treasurer of State.** The Treasurer of State, a constitutional officer, is authorized to receive and keep records of all items of income accruing to the State; to deposit such items in banks, reconciling said balances and temporarily investing idle funds; to sell bonds and notes of the State as approved by law and keep records pertaining to such debt; to maintain monthly exhibits concerning these moneys; to enter into contracts or agreements with banks for custodial care and servicing of negotiable securities belonging to the State; and to establish accounts with such banks for servicing State agencies. The Treasurer of State also administers the Unclaimed Property Program. The Treasurer of State is an ex officio member of the boards of a number of authorities and bodies established by the State, including the Maine Municipal Bond Bank, the Maine Public Employees Retirement System, the Maine Health and Higher Educational Facilities Authority, the Maine Governmental Facilities Authority, the Maine State Housing Authority, the Finance Authority of Maine, the Maine Public Utility Financing Bank, the Adaptive Equipment Loan Board, the Northern Maine Transmission Corporation, the Board of Emergency Municipal Finance, the Indian Housing Mortgage Insurance Committee, the Dirigo Health Agency Board of Trustees, Maine Vaccine Board and the Maine Educational Loan Authority, and is Chair of the NextGen Investment Advisory Board.

The Treasurer of State is responsible daily for the investment of those funds not required to meet current expenditures. Daily deposits are placed in local depositories statewide, wired daily to a central working account and invested fully. All check disbursements are made by the Treasurer of State on warrants issued by the State Controller. Funds are disbursed on bank accounts established under competitive bidding. Funds are transferred from receipt accounts to disbursement accounts by wire as needed to meet balance requirements.

The Treasurer of State maintains a record of all receipts, disbursements and transfer activity and balances to the State Controller monthly. The Treasurer of State maintains the records of the investments of the State through the State investment pool. The investment pool comprises the entire cash availability of the State (all funds) as well as component units that elect to participate. Monthly

transfers of earnings are made by the Treasurer of State to participating funds. The Treasurer of State compiles a listing of State investments held monthly.

When there is money in the State Treasury that is not needed to meet current obligations, the Treasurer of State may invest, with the concurrence of the State Controller or the Commissioner of Administrative and Financial Services and with the consent of the Governor, those amounts in bonds, notes, certificates of indebtedness or other obligations of the United States and its agencies and instrumentalities that mature not more than 36 months from the date of investment, or in repurchase agreements that mature within the succeeding 12 months that are secured by obligations of the United States and its agencies and instrumentalities, prime commercial paper, tax-exempt obligations and corporate bonds rated “AAA” that mature not more than 36 months from the date of investment, or banker’s acceptances or so-called “no-load” shares of any investment company registered under applicable Federal law that complies with certain Federal guidelines and maintains a constant share price.

**Attorney General.** The Attorney General’s primary responsibility is to protect public rights and preserve order through serving as the State’s chief law officer and legal representative of the State. In this capacity, the Attorney General ensures enforcement of Maine laws through instituting, conducting, and maintaining such actions and proceedings as the public interest may require. No State agency may appear and advocate positions before a court without the approval of the Attorney General.

The Department of the Attorney General is authorized to (a) appear for the State, or any State agency or official, in all civil actions and proceedings in which the State is a party or interested, or in which the official acts of such officers are questioned in State or Federal courts or Federal agencies; (b) control and direct the investigation and prosecution of homicides and other major crimes, including frauds against the State; (c) render all legal services required by State officers, boards and commissions in matters relating to their official duties; (d) issue written opinions upon questions of law submitted by the Governor, the head of any State department or agency, or by either branch of the Legislature or any member of the Legislature on legislative matters; (e) enforce due application of funds given or appropriated to public trusts and charities within the State and prevent breaches of trust in the administration thereof; (f) consult with and advise the District Attorneys in matters relating to their duties, and, in the discretion of the Attorney General, act in place of or with them in instituting and conducting prosecutions for crime; and (g) administer and enforce the State unfair trade practices and antitrust laws.

Beyond the general purposes discussed above, the Attorney General has a wide range of duties which the office is specifically directed to perform. Those duties include a review and approval as to form and legality of all regulations of State agencies subject to the Administrative Procedure Act. Among other specific statutory functions, the Attorney General must also review and approve write-offs of debts owed to the State, enforce standards of conduct of the legal profession and participate in making investment decisions regarding the State trust funds.

## **The Legislature**

The legislative power of the State is vested in a Senate and a House of Representatives (collectively, the “Legislature”), each of which has a negative on the other. The Senate consists of 35 members and the House of Representatives consists of 151 members, all of whom are elected for two-year terms from single-member districts. A person may not serve more than four consecutive terms as either a senator or a representative.

The Legislature is organized into 16 Joint Standing Committees, each comprised of 3 Senators and 10 Representatives. Current Joint Standing Committees are: Agriculture, Conservation and Forestry; Appropriations and Financial Affairs; Labor, Commerce, Research and Economic Development; Criminal Justice and Public Safety; Education and Cultural Affairs; Health and Human Services; Inland Fisheries and Wildlife; Insurance and Financial Services; Judiciary; Veterans and Legal Affairs; Marine Resources; Environment and Natural Resources; State and Local Government; Taxation; Transportation; and Energy Utilities and Technology. From time to time, the Legislature has established joint select committees on such matters as Maine's workforce and economic future, property tax reform, health care reform, research and development, corrections, Indian affairs and rules.

The Legislature of the State convenes in even-numbered years on the first Wednesday of December following the general election in what is designated the first regular session of the Legislature and also convenes on the first Wednesday after the first Tuesday of January in the subsequent even-numbered year in what is designated the second regular session of the Legislature. The business of the second regular session of the Legislature is limited to budgetary matters, legislation in the Governor's call, legislation of an emergency nature admitted by the Legislature, legislation referred to committees for study and report by the Legislature in the first regular session and legislation presented to the Legislature by written petition of the voters pursuant to the Constitution of the State. The Legislature may convene at such other times in special session on the call of the President of the Senate and the Speaker of the House, with the consent of the majority of the members of the Legislature of each political party, all members of the Legislature having first been polled. The Governor may, on extraordinary occasions, also convene special sessions of the Legislature.

The Constitution requires the Legislature to enact appropriate statutory limits on the length of the first and second regular sessions. Under the statute currently in effect, the first regular session of the Legislature adjourns no later than the third Wednesday in June and the second regular session of the Legislature adjourns no later than the third Wednesday in April. The Legislature, in the case of emergency, may by a vote of two-thirds of the members of each of the Senate and House of Representatives present and voting, extend the date for adjournment by no more than five legislative days, and, in the case of further emergency, further extend the date for adjournment by five additional legislative days. The times for adjournment for the first and second regular sessions may also be extended for one additional legislative day for the purpose of considering any veto by the Governor of any bill or resolution passed by the Legislature. The 126<sup>th</sup> Legislature is currently meeting in its first regular session .

The Legislature, with certain exceptions, is authorized to make and establish all reasonable laws and regulations for the defense and benefit of the people of the State, not repugnant to the Constitution of the State, nor to that of the United States. Legislation enacted by the Legislature may be vetoed by the Governor. The Governor's veto may be overridden by the subsequent vote of at least two-thirds of each of the House of Representatives and the Senate. The Governor also has "line-item" veto power to decrease appropriations or allocations and to increase deappropriations or deallocations within one day after the Governor receives legislation for approval. The Governor's "line-item" veto may be overridden by the subsequent vote of at least a majority of each of the House of Representatives and the Senate. Legislation does not become effective until 90 days after the recess of the session of the Legislature in which it was passed, unless in case of emergency the Legislature shall, by a vote of two-thirds of all the members elected to each of the House of Representatives and the Senate, otherwise direct.

The Constitution of the State provides that, upon written petition by voters equal to not less than 10% of the total vote cast in the last gubernatorial election preceding such petition and filed on or before

the ninetieth day after recess of the Legislature requesting that legislation passed by the Legislature but not then in effect be submitted to referendum for ratification by a majority of those voting thereon, such legislation does not take effect, if at all, until thirty days after the Governor has announced that such legislation has been ratified by the voters. Any such ratification vote would take place at the next statewide or general election, not less than 60 days after the Governor has proclaimed that sufficient signatures have been submitted.

The Constitution of the State provides that, by written petition, voters equal to not less than 10% of the total vote cast in the last gubernatorial election preceding such petition and filed before a regular session of the Legislature may propose legislation to the Legislature for its consideration. The legislation, unless adopted by the Legislature without change, must be submitted to referendum in the next November after the Legislature recesses.

Pursuant to the Constitution of the State, legislative enactments, including bills, orders or resolutions, may originate in either the Senate or the House of Representatives, and may be altered, amended, or rejected in the other, but all bills for raising a revenue shall originate in the House of Representatives, but the Senate may propose amendments as in other cases, provided that the Senate shall not, under color of amendment, introduce any new matter which does not relate to raising a revenue.

## **The Judiciary**

The judicial power of the State is vested in the Supreme Judicial Court and such other courts as the Legislature may establish. The Legislature has established the Superior Court and the District Court. The courts are administered by the Administrative Office of the Courts under the direction of the State Court Administrator, who is appointed by and serves at the pleasure of the Chief Justice. In addition, the Constitution of the State provides for probate courts in each of the 16 counties of the State.

The Supreme Judicial Court is the highest court in Maine, and as the Law Court is the court of final appeal. It consists of the Chief Justice and six Associate Justices, each of whom is appointed by the Governor with the consent of the Legislature for a seven-year term.

The Superior Court and the District Court are both trial courts of limited, complimentary jurisdiction. The Superior Court offers jury trials and the District Court does not. The Superior Court consists of a Chief Justice and 16 justices, who are appointed by the Governor with the consent of the Legislature for a seven-year term. The Superior Court holds sessions in each of the 16 counties.

The District Court consists of a Chief Judge, a Deputy Chief Judge and 34 judges, each of whom is appointed by the Governor with the consent of the Legislature for a seven-year term. There are 13 districts and several divisions of the court.

## **Independent Authorities and Agencies**

The State has established several independent authorities and agencies, the budgets of which are not included in the annual budget of the State. Certain of these authorities and agencies receive appropriations from the State from time-to-time. Certain of these authorities and agencies are authorized by the statutes creating such authorities and agencies to issue bonds and to undertake financial obligations, payment of which are secured in part by special reserve funds ("Capital Reserves") to which the State may appropriate funds in order to maintain the Capital Reserves at amounts determined by such statutes or by such authorities and agencies (a "Capital Reserve Provision"). While the bonds and obligations of such authorities and agencies and the Capital Reserve Provisions do not

constitute legally enforceable obligations of the State or create any debt on behalf of the State, the Constitution of the State does not prohibit future Legislatures from appropriating sums requested by any such authority or agency in compliance with its Capital Reserve Provision. Certain of these authorities and agencies have been authorized by statute to insure or guarantee repayment of certain loans and bonds. See “Fiscal Management - Constitutional Debt Limit” and “Certain Public Instrumentalities” herein.

## **County and Municipal Government**

The State is divided into 16 county governments responsible for various functions, including the operation of county jails and registries of probate and deeds. Each county government assesses the costs of its operations upon the cities, towns and Unorganized Territories located within the county. A law which took effect in 2008 modified the responsibility of county governments to operate county jails. That law was intended to produce savings in State General Fund expenditures for county jail operations in future fiscal years and also established a State board of corrections, the purpose of which is to develop and implement a unified State and county correctional system.

The State is further divided into 22 cities, 433 towns, 34 plantations, and 4 Indian nations or territories which exercise the functions of municipal government, including the provision of elementary and secondary education. There are also a number of unorganized townships and coastal and inland islands and three Indian Reservations. Cities are governed by several variations of the mayor and council form of government. In most towns, executive power has been placed in a board of three, five, or seven selectmen, elected to terms of from one to three years and legislative power has been retained by the voters themselves, who assemble in periodic open town meetings. There are various regional districts for school, water supply, solid waste, wastewater disposal and other purposes.

Municipal revenues consist of property taxes, local aid (including State subsidies for education and revenue sharing), local receipts (including motor vehicle and watercraft excise taxes, fines, license and permit fees, charges for local services and investment income) and other sources.

## **FISCAL MANAGEMENT**

### **Department of Administrative and Financial Services**

The Department of Administrative and Financial Services, under the supervision and control of the Commissioner of Administrative and Financial Services, is the principal fiscal department of State government. The Commissioner of Administrative and Financial Services has certain duties and authorities, including serving as the Governor’s principal fiscal aide, coordinating financial planning and programming activities of the State government for review and action by the Governor, preparing and reporting to the Governor and the Legislature such financial data or statistics as may be required or requested by them, planning with respect to the fiscal needs of State government and ensuring that all publications stating the salary of a State employee also state the value of the employee’s fringe benefits. The Department of Administrative and Financial Services includes the Bureau of the Budget, headed by the State Budget Officer, the Office of the State Controller and the Bureau of Maine Revenue Services, headed by the State tax assessor and the Associate Commissioner for Tax Policy.

### **Constitutional Debt Limit**

Article IX, Section 14, of the Constitution of the State provides that the Legislature shall not at any time create any debt or debts, liability or liabilities, on behalf of the State, which shall singly, or in the aggregate, with previous debts and liabilities incurred, exceed \$2,000,000, (i) except to suppress

insurrection, to repel invasion, or for purposes of war; (ii) except for temporary loans to be paid out of money raised by taxation during the fiscal year in which they are made; and (iii) excepting also that whenever two-thirds of both the Senate and the House of Representatives shall deem it necessary, by proper enactment ratified by a majority of the electors voting thereon at a general or special election, the Legislature may authorize the issuance of bonds on behalf of the State at such times and in such amounts and for such purposes as may be approved by such action. See Exhibit D, "Selected Information Regarding Authorized and Outstanding Debt of the State - Authorized Expenditures," herein sets forth information regarding bonds currently authorized pursuant to certain enactments which have been ratified by a majority of the voters at various elections. Temporary loans to be paid out of moneys raised by taxation during any fiscal year shall not exceed in the aggregate during the fiscal year in question an amount greater than ten percent of all the moneys appropriated, authorized and allocated by the Legislature from undedicated revenues to the General Fund and dedicated revenues to the Highway Fund for that fiscal year, exclusive of proceeds or expenditures from the sale of bonds, or greater than one percent of the total valuation of the State, whichever is the lesser.

The Constitution also allows the Legislature to authorize the issuance of bonds (i) in the amount of up to \$4,000,000 to guarantee student loans; (ii) to insure payments on up to \$4,000,000 of mortgage loans for war veterans; and (iii) to insure payments on up to \$90,000,000 of mortgage loans for industrial, manufacturing, fishing agricultural and recreational enterprises. The Finance Authority of Maine is authorized to guarantee student loans and to insure payments on certain mortgage loans. See "Certain Public Instrumentalities – Finance Authority of Maine." The Governor has proposed a bond authorization in an amount not to exceed \$100,000,000 for transportation projects that would qualify for federal matching funds, LD 1095, that has not yet been enacted upon. The Governor has proposed revenue bonds to be issued by Maine Municipal Bond Bank, LD 239 for payment of obligations due to Maine's hospitals and revenue bonds of up to \$100,000,000 for correctional facilities construction projects to be issued by the Maine Governmental Facilities Authority, LD 1509. The Constitution also allows the Legislature to authorize the issuance of bonds to insure payments on up to \$1,000,000 of mortgage loans for Indian housing. The Maine State Housing Authority is authorized to insure payments on mortgage loans for Indian housing. See "Certain Public Instrumentalities – Maine State Housing Authority" herein. Although the Constitution also allows the Legislature to authorize the issuance of bonds to insure the payment of revenue bonds of the Maine School Building Authority on school projects not exceeding \$6,000,000, the statutory authorization for insurance of Maine School Building Authority revenue bonds has been repealed. No bonds are outstanding pursuant to any of the authorizations described in this paragraph.

## **Overview of the Budget Process**

The budget of the State government must present a complete financial plan for each fiscal year of the ensuing period of two fiscal years, commencing July 1 in odd-numbered years. The budget must set forth all proposed expenditures for the administration, operation and maintenance of the departments and agencies of State government, all interest and debt redemption charges during each fiscal year and all expenditures for capital projects to be undertaken and executed during each fiscal year of such two-year period. In addition, the budget must set forth the anticipated revenues of the State government and any other means of financing expenditures proposed for each fiscal year of such two-year period.

The State budget consists of a budget message by the Governor (or the Governor-elect) that outlines the financial policy of the State government for the ensuing period of four fiscal years, describing in connection therewith the important features of the financial plan. The Governor's budget overview must also lay out a vision for the State's long-range financial plan and describe how the

proposed budget complements that longer vision, which includes the current biennium and the two succeeding biennia.

The budget includes a general budget summary setting forth the aggregate figures of the budget showing the balance between total proposed expenditures and total anticipated revenues, together with other means of financing the budget for each fiscal year of the ensuing two fiscal years, contrasted with the corresponding figures for the last completed fiscal year and the fiscal year in progress. For information regarding the revenue projection process, see “Fiscal Management – Revenue Forecasting” below. The budget specifically describes the estimated loss in revenue during the last completed fiscal year and the fiscal year in progress and the anticipated loss in revenue for each fiscal year of such two-year period caused by tax expenditures provided by law. The general budget summary must be supported by explanatory schedules or statements, classifying the expenditures contained therein by organization units, objects and funds, and the income by organization units, sources and funds. The budget also includes statements of the bonded indebtedness of the State government showing the debt redemption requirements, the debt authorized and unissued, and the condition of the sinking funds.

Pursuant to Public Laws of Maine 2005, chapter 2 (“2005 Chapter 2”), the total General Fund appropriation for each of the two fiscal years in the biennial budget may not exceed the General Fund appropriation limit established by law, except as otherwise provided by law. See “Fiscal Management – General Fund Appropriation Limit.” 2005 Chapter 2 became effective for fiscal biennia of the State beginning July 1, 2005 and is subject to modification or repeal at any time by the Legislature.

On or before September 1 of even-numbered years, all departments and other agencies of the State government and corporations and associations receiving or desiring to receive State funds must prepare and submit to the State Budget Officer estimates of their expenditure and appropriation requirements for each fiscal year of the ensuing two-year fiscal period contrasted with the corresponding figures of the last completed fiscal year and the estimated figures for the fiscal year in progress. The growth in the State’s General Fund appropriations is limited by law to the ten-year average annual growth in real personal income (not to exceed 2.75%) plus the ten-year average in population growth. State general purpose aid for kindergarten to grade 12 education (“GPA”) is excluded from the General Fund appropriation limit until such time as the State’s share of education funding reaches 55% of total state and local education funding. See “Fiscal Management – General Fund Appropriation Limit” and “State Budgets” below.

The Governor (or the Governor-elect), with the assistance of the State Budget Officer, reviews the budget estimates and may alter, revise, increase or decrease the items of the estimates as may be deemed necessary in view of the needs of the various departments and agencies and the total anticipated income of the State government during the ensuing two-year fiscal period. The State Budget Officer, at the direction of the Governor (or the Governor-elect), then prepares a State budget in the form required by law. The Governor must transmit the budget to the Legislature not later than the Friday following the first Monday in January of odd-numbered years. A Governor-elect to his first term of office must transmit the State budget to the Legislature not later than the Friday following the first Monday in February in odd-numbered years.

Not later than June 1 of each year, the head of each department and agency of State government must submit to the State Bureau of the Budget a work program for the ensuing fiscal year. Such work program must include all appropriations, revenues, transfers and other funds made available to that department or agency for its operation and maintenance and for the acquisition of property, and must show the requested allotments of said sums by quarters for the entire fiscal year, classified to show allotments requested for specific amounts for personal services, capital expenditures and amounts for all

other departmental expenses. The Governor, with the assistance of the State Budget Officer, reviews the requested allotments with respect to the work program of each department or agency and may revise, alter or change its allotments before approving the same. The aggregate of such allotments may not exceed the total sums made available to each department or agency for the fiscal year in question. The State Budget Officer transmits a copy of the allotments as approved by the Governor to the head of the department or agency concerned and also a copy to the State Controller. The State Controller authorizes all expenditures to be made from the sums available on the basis of such allotments and not otherwise. Thereafter, the head of any department or agency of the State government may request, and the Governor may approve, revisions of the allotments for the remaining quarters of a fiscal year.

Whenever it appears to the Commissioner of Administrative and Financial Services that the anticipated revenue and other available funds of the State will not be sufficient to meet the expenditures authorized by the Legislature, the Commissioner so reports in writing to the Governor and to certain officers of the Legislature. After receiving the report, the Governor may temporarily curtail allotments equitably so that expenditures will not exceed the anticipated income and other available funds. The Governor, upon the curtailment of any allotment, notifies certain officers of the Legislature of the specific allotments curtailed, the extent of curtailment of each allotment and the effect of each curtailment on the objects and purposes of the program so affected.

No State department or agency may make expenditures of any Federal funds or expenditures in anticipation of receipt of Federal funds for any new or expanded programs, unless such Federal funds are approved by the Legislature. The Governor may authorize the expenditure of such Federal funds for a period not to exceed twelve calendar months and shall notify the Office of Fiscal and Program Review of the Legislature of such action.

## **Revenue Forecasting**

**Statutory Responsibilities.** A Revenue Forecasting Committee is responsible for providing the Governor, the Legislature and the State Budget Officer with analyses, findings and recommendations relating to the projection of revenues for the General Fund and the Highway Fund based on economic assumptions recommended by the Consensus Economic Forecasting Commission. The Revenue Forecasting Committee includes the State Budget Officer, the Associate Commissioner for Tax Policy, the State Economist, an economist on the faculty of the University Maine System selected by the chancellor, the Director of the Office of Fiscal and Program Review of the Legislature and another member of the Legislature's nonpartisan staff familiar with revenue estimating issues appointed by the Legislative Council. The Revenue Forecasting Committee meets at least four times a year.

The Revenue Forecasting Committee develops current fiscal biennium and two ensuing fiscal biennia revenue projections using the economic assumptions recommended by the Consensus Economic Forecasting Commission. The Revenue Forecasting Committee submits recommendations for State revenue projections for the next two fiscal biennia and analyzes revenue projections for the current fiscal biennium. No later than December 1 of each even-numbered year, the Revenue Forecasting Committee submits to the Governor, certain members of the Legislature and the State Budget Officer analyses, findings and recommendations for General Fund and Highway Fund revenue projections for the next two fiscal biennia. No later than May 1 and December 1 of each odd-numbered year and no later than March 1 and December 1 of each even-numbered year, the Revenue Forecasting Committee submits to the Governor, certain members of the Legislature and the State Budget Officer analyses, findings and recommendations for adjustments to General Fund and Highway Fund revenue for the current and ensuing fiscal biennia.

The Revenue Forecasting Committee makes all determinations necessary to calculate the General Fund appropriation limit established by law. See “Fiscal Management – General Fund Appropriation Limit.”

The State Budget Officer uses the revenue projections of the Revenue Forecasting Committee in setting revenue estimates for inclusion in the State budget and in preparing General Fund and Highway Fund revenue and expenditure forecasts for the budget.

The Consensus Economic Forecasting Commission is responsible for providing the Governor, the Legislature and the Revenue Forecasting Committee with analyses, findings and recommendations representing State economic assumptions relevant to revenue forecasting. The Consensus Economic Forecasting Commission consists of five members appointed by the Governor as provided by law. Each Consensus Economic Forecasting Commission member must have professional credentials and demonstrated expertise in economic forecasting. The Consensus Economic Forecasting Commission meets at least four times a year.

The Consensus Economic Forecasting Commission develops five-year and ten-year macroeconomic secular trend forecasts and one-year, two-year and four-year economic forecasts. The Consensus Economic Forecasting Commission submits recommendations for State economic assumptions for the next fiscal biennium and analyzes economic assumptions for the current fiscal biennium. No later than November 1 of each even-numbered year, the Commission submits to the Governor, the Revenue Forecasting Committee and certain members of the Legislature analyses, findings and recommendations for economic assumptions related to revenue forecasting for the next fiscal biennium. No later than April 1 and November 1 of each odd-numbered year and no later than February 1 and November 1 of each even-numbered year, the Commission submits to the Governor, the Revenue Forecasting Committee and certain members of the Legislature the Commission’s findings and recommendations for adjustments to the economic assumptions for the current fiscal biennium.

**Fiscal Year 2012 and 2013 Reports.** The Consensus Economic Forecasting Commission (“CEFC”) issued its latest report dated April 1, 2013 which updated the forecast it released in November 2012. National and state economic indicators suggest a continued lack of improvement in economic conditions since the CEFC report dated November 2012. Maine’s coincident economic activity index decreased in the three months ending in December 2012 and remains below pre-recession levels. Most states saw growth over the three months ending in December. Nationwide, consumer sentiment and small business optimism are down over year-ago levels. Personal income in Maine grew 3.5% year-over-year in the first three quarters of 2012, while wage and salary income grew 2.1% over the same period. The Consumer Price Index was 2.0% higher in February 2013 than it was in February 2012.

The price of crude oil declined 4.5% in the fourth quarter of 2012 to \$88 per barrel. Home sales in Maine were up 21% in January 2013 compared to January 2012. Month-over-month, housing permits in Maine grew 38% in January 2013. The median home price in the Portland Metropolitan Statistical Area (York, Cumberland, and Sagadahoc Counties) increased 4.6% year-over-year in the fourth quarter of 2012. Mortgage delinquency rates remain well above pre-recession levels but below peak crisis levels. The foreclosure rate in Maine increased in the third quarter of 2012 and remains well above pre-recession levels.

While Congress and the President succeeded in coming to an agreement on many of the “fiscal cliff” issues, the automatic spending cuts known as “budget sequestration” took effect as originally scheduled on March 1, 2013. The CEFC assumed that, while some of the economic effects of these spending cuts will certainly be felt in Maine, Congress and the President will reach a solution that prevents extensive deterioration of economic conditions. Given the negative impact to the economy if a

solution is not successfully reached, the CEFC will reevaluate their forecast in the third quarter of the calendar year 2013 in response to actual policy decisions at the federal level.

Actual wage and salary employment data for 2011 and 2012 were stronger than previously forecasted, resulting in higher growth rates for those two years. The 2013-2017 employment forecast was left unchanged. Personal income growth was revised downwards for 2012 following the release of actual estimates from the U.S. Bureau of Economic Analysis. Personal income was also revised down for 2013 in part to reflect a partial shift in bonuses and dividends from 2013 to 2012 to take advantage of lower tax rates. 2014 and 2017 were revised upwards while 2016 was revised slightly downwards and 2015 was left unchanged. Inflation, as measured by the Consumer Price Index (CPI), was revised upwards for 2012 and 2013 and slightly downwards for 2014-2017.

The Revenue Forecasting Committee met in late April 2013 to review and update the November 2012 revenue forecast. The revised forecast, which was issued on May 1, 2013, adjusted General Fund revenue estimates up by \$43.5 million in fiscal year 2013 and downward by \$58.1 million in the 2014-2015 biennium with sales taxes representing a majority of the downward adjustment.

Individual Income Tax revenues were increased in this forecast by \$81.1 million in fiscal year 2013 and \$28.7 million in the 2014-2015 biennium. There are numerous reasons for the changes made on the individual income tax line. A large portion of the changes are technical in nature, reflecting the improvements to the new database underlying the tax forecasting and estimating models used by Maine Revenue Services' Office of Tax Policy, and additional analysis of Internal Revenue Service (IRS) tax filings by Maine residents for the 2010 and 2011 tax years. Data from the IRS shows that there has been a significant drop in the mortgage interest deduction in recent years because of historically low interest rates. Adjustments to the State's models to account for this lower level of itemized deductions and other calibrations of the model to state and federal data are the reasons for the on-going higher level of individual income tax receipts.

The May 2013 forecast projects decreases in sales and use tax revenues of \$22.1 million in fiscal year 2013 and \$44.5 million in the 2014-2015 biennium as a result of a weak economic recovery, expiration of the federal payroll tax holiday and uncertainty regarding resolution of US and European fiscal policy challenges. Corporate Income Tax receipts were reduced by \$15.0 million in fiscal year 2013 and \$46.2 million the 2014-2015 biennium. Corporate income tax receipts are down approximately 20% during the first nine months of fiscal year 2013 compared to the same nine month period last year. With limited tax data to go on, the Revenue Forecasting Committee attributed the recent weakness to a timing issue reflecting the recognition by corporations of the impact of the Maine Capital Investment Credit on their 2011 Maine Tax Liability. Going forward, the expiration of the investment credit and enhanced Sec. 179 expensing, the ability to use net operating loss carryforwards again at the State level now that the disallowance of carryforwards for 2009, 2010, and 2011 has ended and the recapture of previous bonus depreciation the State did not conform to create such a high level of uncertainty that it is prudent to significantly scale back its corporate income tax forecast for the next biennium.

Because of assumptions made by the CEFC in their November 2012 forecast the Revenue Forecasting Committee did not try to estimate behavior by Maine households making end-of-year financial decisions to avoid potential tax increases at the federal level as a result of the expiration of the Bush tax cuts and other tax stimulus programs enacted in 2009, 2010, and 2011 and tax increases included in the Affordable Care Act that began in 2013. It's now clear that there was significant shifting of income from calendar year 2013 and beyond into calendar year 2012 to avoid these increases. The large one-time revenue adjustment to individual income tax receipts in fiscal year 2013 reflects this taxpayer behavior.

For a description of enacted and proposed laws amending the budgets for fiscal years 2011, 2012 and 2013 and for information regarding fiscal year 2011, 2012 and 2013 revenues, see “State Budgets” below.

### **General Fund Appropriation Limit**

Pursuant to 2005 Chapter 2, the rate of growth of General Fund appropriations in a fiscal year is limited in one of two ways (the “Growth Limit Factor”). For fiscal years when the “state and local tax burden” of the State ranks in the highest one-third of all states, the Growth Limit Factor is “average real personal income growth,” but no more than 2.75%, plus “average population growth.” For fiscal years when the “state and local tax burden” of the State ranks in the middle one-third of all states, the Growth Limit Factor is “average real personal income growth” plus “forecasted inflation” plus “average population growth.”

“Average population growth” means the average for the prior ten calendar years of the percent change in population from July 1 of each year. “Average real personal income growth” means the average for the prior ten calendar years of the percent change in personal income in the State less the percent change in the consumer price index for the calendar year. “Forecasted inflation” means the average amount of change of the consumer price index for the calendar years that are part of the ensuing two fiscal years forecasted by the Consensus Economic Forecasting Commission in its November 1 report in even-numbered years. “State and local tax burden” means the total amount of state and local taxes paid by residents of the State per \$1,000 of income.

As of December 1 of each even-numbered year, a General Fund appropriation limit is established for the ensuing two fiscal years. For the first fiscal year, the General Fund appropriation limit is equal to the “biennial base year appropriation” multiplied by one plus the Growth Limit Factor. For the second fiscal year, the General Fund appropriation limit is the General Fund appropriation limit of the first year multiplied by one plus the Growth Limit Factor. “Biennial base year appropriation” means the amount of the General Fund appropriation limit for the current year as of December 1 of even-numbered years.

The General Fund appropriation limit applies to all General Fund appropriations, except certain education costs described in the following paragraph. The General Fund appropriation limit is approximately \$3.4 billion for fiscal year 2011, \$3.5 billion for fiscal year 2012 and is approximately \$3.5 billion for fiscal year 2013. The Growth Limit Factor for fiscal year 2011 is 2.76%. The Growth Limit Factor for the 2012-2013 biennium is 2.05%.

2005 Chapter 2 provides that the additional cost for certain essential educational programs and services (“Essential Programs and Services”) for kindergarten to grade 12 education (“K-12 Education”) over the fiscal year 2004-05 appropriation for general purpose aid for local schools is excluded from the General Fund appropriation limit until the State share of that cost reaches 55% of the total State and local cost (the “EPS Costs”). Current law provides that the State will pay 55% of the total State and local cost of K-12 Education for fiscal year 2014 and that the General Fund appropriation limit will include the State share of the cost of K-12 Education beginning with fiscal year 2015. See “Certain Expenditures and Obligations - Education Funding” herein.

The General Fund appropriation limit may be exceeded for certain extraordinary circumstances which must be outside the control of the Legislature, including (a) catastrophic events, such as natural disaster, terrorism, fire, war and riot, (b) unfunded or underfunded State or Federal mandates, (c) citizens’ initiatives or other referendum, (d) court orders or decrees or (e) loss of Federal funding. Extraordinary circumstances do not include changes in economic conditions, revenue shortfalls, increases in salaries or benefits, new programs or program expansions that go beyond existing program

criteria and operation. The General Fund appropriation limit may be temporarily increased for such other purposes only by a vote of both Houses of the Legislature in a separate measure that identifies the intent of the Legislature to exceed the General Fund appropriation limit. 2005 Chapter 2 is also subject to modification or repeal at any time by the Legislature.

“Baseline General Fund revenue” and other available budgeted General Fund resources that exceed the General Fund appropriation limit plus the EPS Costs must be transferred to the Maine Budget Stabilization Fund (the “Stabilization Fund”). If the Stabilization Fund is at its limit of 12% of General Fund revenue of the immediately preceding fiscal year, then amounts that would otherwise have been transferred to the Stabilization Fund must be transferred to the Tax Relief Fund for Maine residents. “Baseline General Fund revenue” means the recommended General Fund revenue forecast reported by the Revenue Forecasting Committee in its December 1 report in even-numbered years, increased by the estimated amount of net General Fund revenue decrease, if any, for all enacted changes reducing the state and local tax burden included in that forecast.

Public Laws of Maine 2005, chapter 519 (“2005 Chapter 519”) changed the priority order of distributions from the unappropriated surplus of the General Fund. It directs transfers to the State Contingent Account as the first priority (until the balance therein equals a maximum amount of \$350,000) and permits transfers to the Loan Insurance Reserve as the second priority in amounts up to \$1,000,000 per year. After these transfers are made, the then available balance of unappropriated surplus is distributed as follows: 35% to the Stabilization Fund; 20% to the Retirement Allowance Fund; 20% to the Reserve for General Fund Operating Capital; 15% to the Retiree Health Insurance Internal Service Fund; and the final 10% to the Capital Construction and Improvements Reserve Fund.

Public Laws of Maine 2011, chapter 1 (“2011 Chapter 1”) required the transfer of \$3,188,702 from the fiscal year 2011 unappropriated surplus of the General Fund to the Stabilization Fund no later than June 30, 2011. Public Laws of Maine 2011, chapter 28 (“2011 Chapter 28”) changed the priority order of distribution for fiscal year 2011 and directed the transfer of up to \$25 million to the Stabilization Fund as the first priority following the transfers to the State Contingent Account and the Loan Insurance Reserve and before the 35% transfer to the Stabilization Fund. The State closed fiscal year 2011 with approximately \$82 million available in General Fund unappropriated surplus before the year end transfers. The total transfer to the Stabilization Fund, including the \$25 million authorized in 2011 Chapter 28, was \$35.3 million and the Reserve for General Fund Operating Capital received \$5.9 million. The remainder of the year end balance was distributed as follows: \$5.9 million to the Retirement Allowance Fund, \$4.4 million to the Retiree Health Fund, \$2.9 million to the Capital Construction and Improvement Reserve Fund, \$1 million to Loan Insurance Reserve Fund and \$350 thousand to the State Contingent Account. Additionally, \$5 million was transferred to the Department of Health and Human Services Bureau of Medical Services account and \$2,500,488 was transferred to the Department of Administrative and Financial Services, Accident, Sickness and Health Insurance Internal Service Fund.

Public Laws of Maine 2011, chapter 380 (“2011 Chapter 380”) further changed the priority order of distribution. Prior to the percentage distributions ordered in 2005 Chapter 15, 2011 Chapter 380 provides for two transfers from the unappropriated surplus, if any: a transfer of \$15,000,000 to a retirement reserve account to provide a non-cumulative COLA payment to retirees for fiscal years 2012, 2013 and 2014 and a transfer of \$25,000,000 for hospital settlements in fiscal year 2012 (this language was extended to fiscal year 2013 in Public Laws of Maine 2011, chapter 657). Both of these transfers would be met before the year end percentage distribution of the unappropriated surplus, if any, as of June 30, 2012.

Public Laws of Maine 2011, chapter 692 (“2011 Chapter 692”), “An Act to Provide Tax Relief for Maine’s Citizens by Reducing Income Taxes,” amends the Tax Relief Fund for Maine Residents, and provides that amounts, if any, credited to this fund in the future will be used to allow for potential future incremental reductions in the individual income tax rates to 4%. The bill provides for the State Tax Assessor to calculate annually the amount by which income tax rates may be reduced in subsequent years using the amount available from the Tax Relief Fund for Maine Residents to offset the lower tax revenue expected to be received in the following year. 2011 Chapter 692 provides for an initial minimum reduction of 0.2 percentage points. 2011 Chapter 692 only provides for reductions in tax rates and does not provide for any increases.

2011 Chapter 692 also changes the distribution of the unappropriated surplus of the General Fund to: 35% Stabilization Fund; 13% Retirement Allowance Fund; 13% Reserve for General Fund Operating Capital; 9% Retiree Health Insurance Internal Service Fund; 10% Capital Construction and Improvements Reserve Fund and 20% to the Tax Relief Fund for Maine Residents. If the General Fund has an unappropriated surplus and the Tax Relief Fund for Maine Residents is fully funded, this legislation further provides for an individual income tax rate reduction until the individual income tax rate reaches 4 percent. Maine Revenue Services estimates that a reduction of the individual income tax rate from its current top rate of 7.95% to 4% would decrease annual State revenues by approximately \$600 million. Maine Revenue Services has also estimated that in order to provide the initial minimum reduction of 0.2 percentage points, the balance in the Tax Relief Fund for Maine Residents would need to be approximately \$40 million and that aggregate unappropriated General Fund surpluses of over \$200 million would be needed to generate such a balance in the fund.

Public Laws of Maine 2013, chapter 1 (“2013 Chapter 1”) further changes the priority order of distribution after transfers to the State Contingent account, Loan Insurance Reserve account, and Reserve for Retirement benefits account to 48% to the Stabilization Fund, 13% to the Reserve for General Fund Operating Capital account, 9% to the Retiree Health Insurance Internal Service Fund and 10% to the Capital Construction and Improvements Reserve Fund. An exception to the transfers of the statutory year-end reserves was included in 2013 Chapter 1 that authorizes 80% of the year – end reserves to be transferred to the Budget Stabilization Fund, with the remaining 20%, allocated as follows: to the Reserve for General Fund Operating Capital, 25%, Retiree Health Insurance Internal Service Fund, 17.5%, Capital Construction and Improvements Reserve Fund, 19% and the Tax Relief Fund for Maine Residents, 38.5% for fiscal year 2013 only. This law further authorizes a transfer of \$40 million from the Budget Stabilization Fund and \$17.1 million from the Reserve for General Fund Operating Capital fund to unappropriated surplus in fiscal year 2013.

As of April 27, 2013, the projected fiscal year 2013 year-end balance in the Budget Stabilization Fund was \$4.6 million. The reduction of the Stabilization Fund balance, as compared to the balance as of June 30, 2012, is primarily related to a transfer in 2013 Chapter 1 of \$40 million to the General Fund unappropriated surplus. The Retirement Allowance Fund is used to make supplemental payments, if any, to reduce the State’s unfunded pension liability and, therefore, does not carry a balance forward from year to year. As of April 27, 2013, the balances in the Retiree Health Insurance Internal Service Fund and the Capital Construction and Improvements Reserve Fund were \$27.7 million and \$1.7 million, respectively.

### **Citizen Initiative Petitions**

Pursuant to the Constitution of the State an initiative petition of citizens of the State entitled, “An Act to Allow Marriage Licenses for Same-sex Couples and Protect Religious Freedom” was presented to the Legislature in 2012. The Legislature did not pass this initiative, and it was placed before the voters

of the State at the statewide election on November 6, 2012 for a decision on whether to enact the initiated legislation. This initiative was voted into law on November 6, 2012, and became effective December 29, 2012. This initiative has no fiscal impact. Pursuant to the Constitution of the State the deadline to file a citizen initiative for consideration by the First Regular Session of the 126th Legislature was January 24, 2013. As no petitions were filed with the Secretary of State as of that date, no citizen initiative questions will appear on the November 5, 2013 ballot.

## **The Accounting System**

The Department of Administrative and Financial Services, through the Office of the State Controller, is authorized to maintain an official system of general accounts (unless otherwise provided by law) embracing all the financial transactions of the State; to examine and approve all contracts, orders and other documents to ascertain that moneys have been duly appropriated and allotted to meet such obligations and will be available when such obligations will become due and payable; to audit and approve bills, invoices, accounts, payrolls and all other evidence of claims, demands or charges against the State government (State government is defined to include the Judiciary and the Executive Department of the Governor); to implement internal control standards applicable to State agencies and departments; and to exercise certain other rights, powers and duties as more fully prescribed by law.

The principal Funds established by the State for budgetary accounting purposes are the Governmental Funds (which include the General Fund, the Special Revenue Funds and the Capital Projects Funds), the Proprietary Funds (which include the Enterprise Funds and the Internal Service Funds) and the Fiduciary Funds (which include the Trust and Agency Funds). The Funds are used as follows:

The Governmental Funds account for the general governmental activities of the State. The **General Fund** is used to account for all governmental transactions that are not accounted for in another fund. Sales tax, individual and corporate income taxes and other business taxes provide most of the funds available for appropriation by the Legislature for general governmental operations, such as education, human services, corrections, the judiciary and the Legislature. The General Fund is the State's major operating fund.

The **Special Revenue Funds** account for specific revenue sources, other than expendable trusts or major capital projects that are legally restricted to expenditures for specified purposes. The Special Revenue Funds include the following:

The **Highway Fund** is used to account for revenues derived from registration of motor vehicles, operators' licenses, gasoline tax and other dedicated revenues, except for Federal matching funds and bond proceeds used for capital projects. The Legislature allocates this Fund for the operation of various Department of Transportation programs, including construction and maintenance of highways and bridges, for a portion of the State Police administration and for other State programs.

The **Other Special Revenue Funds** are used to account for various special purpose funds which have been established on a self-supporting basis. Revenues are generated by taxes, licenses, fees and Federal matching funds and grants.

**Capital Projects Funds** account for financial resources used to acquire or construct major capital assets other than those financed by proprietary funds. These resources are derived primarily from proceeds of general obligation bonds. The State also includes in this Fund the proceeds from bond issues for uses other than major capital facilities.

The Proprietary Funds account for the State's ongoing activities that are similar to those found in the private sector. The **Enterprise Funds** account for transactions related to resources received and used to finance self-supporting activities of the State. The costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

The **Internal Service Funds** account for the financing and sale of goods or services between agencies of the State or other governmental units on a user charge basis.

The Fiduciary Funds account for assets held by the State acting as either a trustee or an agent for individuals, private organizations and other governmental units or other Funds. The **Expendable Trust Funds** account for assets held in a trustee capacity where principal and income may be expended for the funds' designated operations. The **Nonexpendable Trust Funds** account for assets held in a trustee capacity where only income may be expended for the funds' designated operations. **Agency Funds** account for assets which the State, as custodian, holds for others.

In addition, the State has established the **General Long-Term Obligations Account Group** to establish control and accountability for long-term obligations of the State, including those related to general obligation bonds, capital leases, certificates of participation and compensated absences, not accounted for in Proprietary Funds or Nonexpendable Trust Funds. The State has also established the **General Fixed Assets Account Group** to establish control and accountability for all capital assets of the State not accounted for in Proprietary Funds. The State records its general long-term obligations and capital assets in the government-wide statement of net assets.

The accounting system is designed to assure that expenditures do not exceed amounts authorized by legislative appropriation and to conform, to the extent possible, to standards of the Governmental Accounting Standards Board ("GASB") and its predecessor, the National Council on Governmental Accounting. Financial transactions are recorded in the General Fund, the Highway Fund and certain other funds as described above and in Exhibit B hereof.

### **Accounting Reports and Practices**

The State Controller prepares a Comprehensive Annual Financial Report ("CAFR") in accordance with standards established by GASB. This report is the official financial report of the State government.

The State Controller's annual financial report for the fiscal year ended June 30, 2012 is set forth in two separate publications. The first publication consists of the Basic Financial Statements of the State of Maine for the year ended June 30, 2012 which are set forth in Section I of Exhibit B. Certain information which is included in the second publication and certain information which has been derived from provisions of the State Controller's annual financial reports for certain prior fiscal years comparable to the second publication is included in Section II of Exhibit B. The information set forth in Section II of Exhibit B is based on budgetary and legal requirements.

The Basic Financial Statements of the State of Maine for the year ended June 30, 2012 which are set forth in Section I of Exhibit B have been prepared by the State Controller and have been audited by the Department of Audit in accordance with auditing standards generally accepted in the United States of America. The Department of Audit has issued an unqualified opinion on the Basic Financial Statements.

Because of the variety of activities and programs run by the State, the State Controller has established several specialized accounting conventions, which are consistently applied within the fund accounting system. For more information on the basis of accounting used by the State, see Exhibit B, Section I, “Notes to the Financial Statements, June 30, 2012.”

Annual financial reports prepared by the State Controller for the fiscal year ending June 30, 2012 and for prior fiscal years are available upon request directed to Kristi L. Carlow, Acting Deputy State Treasurer, 39 State House Station, Augusta, Maine 04333, telephone: 207-624-7477; facsimile: 207-287-2367. The CAFR for the fiscal year ended June 30, 2012 and for prior fiscal years are also available at [http:// www.maine.gov/osc/finanrept/cafr.shtml](http://www.maine.gov/osc/finanrept/cafr.shtml).

## **Department of Audit**

The Department of Audit is headed by the State Auditor, who is elected by the Legislature by a joint ballot of the Senators and Representatives in convention to hold office for a term of four years. A person may not serve more than two consecutive terms as State Auditor. The Department of Audit is authorized to audit all accounts and other financial records of State government, including the Judiciary and the Executive Department of the Governor, except the Governor's expense account, and to report annually on this audit, and at such other times as the Legislature may require; to review and study departmental budgets and capital programs for better and efficient management of State government; to serve as a staff agency to the Legislature or to the Governor in making investigations of any phase of the State's finances; and to perform audits of all accounts and financial records of any organization, institution or other entity receiving or requesting an appropriation or grant from the State; to issue reports on such audits and investigations; and to conduct financial and compliance audits of financial transactions and accounts kept by or for State agencies subject to federal single audit requirements.

## **Audit Reports**

The State Auditor is required by law to audit the Basic Financial Statements included within the Comprehensive Annual Financial Report prepared by the State Controller for each fiscal year. The State Auditor's Independent Audit Opinion dated December 21, 2012 with respect to the fiscal year ending June 30, 2012 is set forth in Exhibit B hereto. Single audit reports prepared by the Department of Audit for the fiscal year ending June 30, 2012 and for certain prior fiscal years are available upon request directed to the Acting Deputy State Treasurer. See “Miscellaneous” herein.

All information in this Information Statement for any period ending after June 30, 2012 is unaudited and therefore is subject to change.

## **STATE BUDGETS**

Laws authorizing General Fund and Highway Fund expenditures for fiscal years 2009 through 2013 have been enacted and provide for such expenditures in the amounts set forth in the table below.

<u>Fiscal Year Ending June 30</u>	<u>General Fund Expenditures Authorized</u>	<u>Highway Fund Expenditures Authorized</u>
2009	\$ 3,017,952,419	\$ 327,534,161
2010	2,849,227,923	316,706,397
2011	2,872,754,172	304,310,083
2012	3,130,209,894	318,920,211
2013*	3,081,929,497	317,272,450
2014*	3,143,482,468	310,151,280
2015*	3,112,771,395	307,448,530

\*Subject to change upon enactment of final budget acts and upon reconciliation of budget acts and miscellaneous acts with fiscal impact

For information regarding fiscal years 2010 through 2013 expenditures, see “Certain Expenditures and Obligations – General Fund Expenditures” below.

On December 1, 2010, the Revenue Forecasting Committee issued a scheduled updated forecast. The December report reflected an upward adjustment of revenues of \$111.6 million in fiscal year 2011, \$170.5 million in fiscal year 2012 and \$195.1 million in fiscal year 2013. The December report also projected revenues of \$3.3 billion in fiscal year 2014 and \$3.4 billion in fiscal year 2015.

On January 12, 2011, the Governor released his supplemental budget recommendations to provide \$248 million in State and federal funds for hospital settlements dating back to fiscal year 2006. The budget recommendations also addressed projected growth in the MaineCare programs and a phased reduction in the Federal Medicaid Assistance Percentage from 6.2 to 1.2 percentage points by June 30, 2011.

A second supplemental budget was released by the Governor on March 28, 2011 to restore a deappropriation included in 2009 Chapter 571 related to the disallowance of federal financial participation for targeted case management claims in fiscal years 2002 and 2003. The funds were proposed to be restored to the Medical Care – Payments to Providers program to address shortfalls that resulted from the deappropriation with the expectation that the Federal government would be reimbursed in fiscal year 2012. The budget recommendations further addressed growth in the MaineCare program and provided funds for Child Development Services to address a projected shortfall for the program.

On February 8, 2011, the Legislature enacted the first supplemental budget based on the Governor’s recommendations; the Governor signed that budget into law the same day. The law, 2011 Chapter 1, amended the 2010-2011 biennial budget enacted in the spring of 2009, 2009 Chapter 213 and the 2010-2011 supplemental budget enacted in the spring of 2010, 2009 Chapter 571. On April 14, 2011, the Legislature enacted the second supplemental budget for fiscal year 2011 based on the Governor’s recommendations; the Governor signed that budget into law on the same day. The law, 2011 Chapter 28, further amended the budgets previously mentioned.

Prior to the December 2010 upward revenue projection, the Bureau of the Budget updated its four year revenue and expenditure forecast in September 2010 for the fiscal year ending June 30, 2013. As required by State law, the forecast assumed the continuation of current laws and included reasonable and predictable estimates of growth in revenues and expenditures based on national and local trends and program operations. At the time of the forecast the structural gap was projected to be \$1.2 billion for the 2012-2013 biennium.

The gap assumed increases in General Purpose Aid for Local Schools (GPA) of \$216.5 million in fiscal year 2012 and \$238.4 million in fiscal year 2013 over fiscal year 2011 levels. The preliminary amounts would increase GPA \$423.9 million over the previous 2010-2011 biennium and achieve the commitment made in 2005 Chapter 2, as amended, for a 55% State share of education costs. The structural gap also reflected significant increases in future State contributions to address the increased unfunded pension liability for state employees and teachers. See “Defined Benefit Retirement Programs” below.

In order to address the projected shortfall, the Governor’s recommended budget for the 2012-2013 biennium included proposals to delay the attainment of 55% for GPA until the 2014-2015 biennium and to make several changes to pension benefits in order to reduce the unfunded pension liability for state employees and teachers. 2011 Chapter 380 was signed by the Governor on June 20, 2011. In addition to delaying the attainment of 55% for GPA until the 2014-2015 biennium, it amended the requirement to include the cost of teacher retirement, retired teachers’ health insurance and retired teachers’ life insurance in the calculation. See “Certain Expenditures and Obligations – Education Funding” below. It increased the retirement age of state employee and teacher members of the Retirement System having less than 5 years of service to 65 years of age, froze cost-of-living increases for retirees for 3 years and capped them at 3% for the first \$20,000 beginning in fiscal year 2014. The pension changes resulted in savings to the General Fund of \$123.1 million in fiscal year 2012 and \$126.2 million in fiscal year 2013 and eliminated \$1.7 billion, or 41%, of the then estimated unfunded pension liability.

The Governor’s budget amended statutory provisions pertaining to retired teachers’ health insurance to include 10 year vesting periods, require retirees to pay 100% of the cost of their health insurance if they retire before reaching their normal retirement age and cap the State’s cost for premiums at fiscal year 2011 totals. These changes resulted in savings to the General Fund of \$5.5 million in fiscal year 2012 and \$9.2 million in fiscal year 2013. The State’s cost of health insurance premiums for active employees for the 2012-2013 biennium was also capped at fiscal year 2011 totals resulting in savings to the General Fund of \$4.6 million in fiscal year 2012 and \$9.5 million in fiscal year 2013. In addition to freezing merit increases for State employees for the biennium and eliminating longevity payments for certain individuals not eligible on June 30, 2011, the approved budget offered a retirement incentive to employees who were eligible to retire. These three initiatives resulted in estimated savings to the General Fund of \$7.7 million in fiscal year 2012 and \$12.6 million in fiscal year 2013.

The December 2010 upward projection of revenue allowed the Governor to propose tax cuts intended to stimulate economic growth in his biennial budget for 2012-2013. 2011 Chapter 380 reformed the income tax provisions by flattening the rate structure and reducing the top rate from 8.50% to 7.95%. It conformed to the federal income tax code Section 179 expensing provisions for small business investment and to the federal standard deduction for joint filers (marriage penalty relief) and personal exemption amount. These changes resulted in the reduction of undedicated revenue to the General Fund of \$17.3 million in fiscal year 2012 and \$81.0 million in fiscal year 2013. The approved budget adopted the new Maine Capital Investment Credit to provide a credit equal to 10% of the federal bonus depreciation on certain qualified property placed in service in Maine resulting in an estimated reduction of General Fund revenues of \$24.7 million in fiscal year 2012 and \$7.0 million in fiscal year 2013. It eliminated the requirement that out-of-state residents pay income taxes after 10 days and exempted meals provided at retirement facilities from the sales tax. These initiatives resulting in an estimated reduction of General Fund revenues of \$4.5 million in fiscal year 2012 and \$3.1 million in fiscal year 2013.

2011 Chapter 380 has amended the Maine Residents Property Tax and Rent Refund, or “Circuit Breaker” program to permanently fund the program at 80%. This increased General Fund revenues by \$11 million in fiscal year 2012 and \$11.3 million in fiscal year 2013. The budget authorized the transfer of the 5% local government fund share of certain taxes that increased from current levels as a result of revised revenue projects and other tax initiatives to the General Fund resulting in an increase of undedicated revenue of \$42.4 million in fiscal year 2012 and \$48.6 million in fiscal year 2013.

In December 2011, the Governor proposed a budget to address a projected shortfall in the MaineCare program of approximately \$120.9 million in fiscal year 2012 and \$101.0 million in fiscal year 2013. At that time the Legislature also received a budget that reflected the recommendations of the Streamline and Prioritize Core Government Services Task Force to reduce spending by approximately \$25 million by fiscal year 2013. In its December 2011 report, the Revenue Forecasting Committee revised its May 2011 forecast for the General Fund and increased projections for fiscal year 2012 by \$10.6 million and decreased projections for fiscal year 2013 by \$9.6 million. The Legislature chose to address the fiscal year 2012 portion of the shortfall first and combined the proposals into the streamlining budget. The result was 2011 Chapter 477, which was approved by the Governor on February 23, 2012. In addition to implementing the recommendations of the Streamline and Prioritize Core Government Services Task Force, it provided General Fund appropriations totaling \$107.3 million in fiscal year 2012 to address the MaineCare shortfall. It recognized savings in fiscal year 2013 intended to reduce the overall cost of the MaineCare program by reducing rates paid to agency per diem homes by 5% (\$3.7 million), reducing funding for contracts (\$2 million), limiting access to certain combination drugs (\$0.6 million), and increasing compliance with statutes mandating the use of generic drugs (\$5.8 million). It extended the freeze on new enrollment in the MaineCare childless adult waiver program, saving \$11 million in fiscal year 2013 and provides one-time savings of \$10 million from the Dirigo Health program to fund a portion of the fiscal year 2012 cost of the childless adult waiver program. 2011 Chapter 477 also authorized a one-time assessment on hospitals equal to 0.39% of hospital net operating revenue resulting in \$14.2 million in revenue in fiscal year 2013 to the General Fund.

On May 16, 2012, the Governor signed into law 2011 Chapter 657, which addressed a net fiscal year 2013 shortfall in the MaineCare program of \$78.6 million. In addition to resolving the revised fiscal year 2013 MaineCare shortfall, it provides \$4.3 million for the municipal general assistance program to fund an increase in demand for services and \$3.8 million for operation of the E-911 program. It transfers \$13 million to the Budget Stabilization Fund in fiscal year 2013 and includes authority to transfer up to \$7.4 million from the fund, if necessary, to add to \$3.2 million appropriated for the State’s psychiatric hospitals for the cost of forensic patients determined ineligible for federal reimbursement, and an additional transfer of \$3.8 million, if necessary, to reimburse the federal government for funds drawn for ineligible MaineCare recipients. It generates savings from eliminating of some MaineCare optional coverage and services, resulting in fiscal year 2013 savings to the General Fund of \$13.8 million. It reallocates Fund for a Healthy Maine resources to the MaineCare program, providing savings of \$9.9 million, and directs the Department of Health and Human Services to develop a Medicaid stabilization plan to achieve savings of \$5.3 million. It eliminates \$2 million from the Head Start program and reduces funding by requiring hospital based primary care practices that also provide mental health services to participate in the Maine Health Access Foundation’s integrated care initiative for outpatient mental health and primary care service, saving \$1.5 million in fiscal year 2013. It raises the loan reserve cap for the Finance Authority of Maine from \$35 million to \$40 million and transfers \$2 million to the General Fund, implements a use tax compliance and education program to generate \$5.3 million in one-time revenue, and authorizes the use of overtime to enhance the collection of tax receivables, resulting in net savings of \$1.7 million. In fiscal year 2013, it requires revenues in excess of \$10.6 million from the Oxford casino that would otherwise go to the Department of Education for

essential programs and services to be transferred to the Department of Health and Human Services to be used for hospital settlements.

2011 Chapter 657 amends the pension income tax subtraction modification for certain retirement benefits to raise the \$6,000 limit to \$10,000, it provides an income tax exemption to active duty military service men and women for pay received while in service outside of Maine and provides a sales tax exemption for commercial wood harvesting and commercial greenhouse and nursery products. These changes are expected to result in a revenue loss of \$8.7 million in fiscal year 2014 and \$23.5 million in fiscal year 2015.

Prior to the December 2012 downward revenue projection the Bureau of the Budget updated its four year revenue and expenditure forecast in September 2012 for the fiscal year ending June 30, 2015. As required by State law, the forecast assumed the continuation of current laws and included reasonable and predictable estimates of growth in revenues and expenditures based on national and local trends and program operations. At the time of the forecast the structural gap was projected to be \$755.5 million for the 2014-2015 biennium.

The gap assumed increases in General Purpose Aid for Local Schools (GPA) of \$119.4 million in fiscal year 2014 and \$135.1 million in fiscal year 2015 over the fiscal year 2013 level. The preliminary amounts would increase GPA \$274.1 million over the previous 2012-2013 biennium and achieve the commitment made in 2005 Chapter 2, as amended by 2007 Chapters 240 and 539, for a 55% State share of education costs. The structural gap assumed Health and Human Services increases totaling \$298.6 million for the biennium, which reflects increases for program growth and utilization in Mainecare over the 2014-2015 biennium in the amount of \$148.1 million.

On December 1, 2012, the Revenue Forecasting Committee issued a regularly scheduled update to the forecast. The December report reflected a downward adjustment of General Fund revenues of \$35.5 million in fiscal year 2013, \$58.3 million in fiscal year 2014 and \$66.9 million in fiscal year 2015. The December report also projected revenues of \$3.1 billion in fiscal year 2016 and \$3.2 billion in fiscal year 2017.

In order to address the projected shortfall, the Governor's recommended budget, LD 1509, for the 2014-2015 biennium included proposals to delay the attainment of 55% for GPA until the 2016-2017 biennium. In addition to delaying the attainment of 55% for GPA until the 2016-2017 biennium, the Governor's 2014-2015 Biennial Budget proposal shifts the responsibility for funding the normal cost component of teacher retirement from being 100% borne by the State to a 50/50 state and local funding responsibility. This proposal would reduce funding to the Teacher Retirement program by \$28.9 million in fiscal year 2014 and by \$29.9 million in fiscal year 2015 representing the total cost of the normal cost component for teacher retirement and appropriates \$14.4 million and \$14.96 million in fiscal year 2014 and 2015, respectively, to the General Purpose Aid for Local Schools program for the State's share of normal cost. The Governor's budget recommended increasing appropriations to MaineCare in the amount of \$318 million over the 2014-2015 biennium, offset by deappropriations totaling \$148.8 million over the 2014-2015 biennium.

The State's cost of health insurance premiums for active employees for the 2014-2015 biennium was also capped at fiscal year 2011 totals resulting in savings to the General Fund of \$3.8 million in fiscal year 2014 and \$8.0 million in fiscal year 2015. In addition, freezing merit increases for State employees for the biennium and eliminating longevity payments resulting in savings of \$4.3 million in fiscal year 2014 and \$6.5 million in fiscal year 2015. The approved budget adjusts funding for the State Police to 67% General Fund and 33% Highway Fund at a total cost to the General Fund of \$7.5 million in fiscal year 2014 and \$7.6 million in fiscal year 2015.

The Governor's recommended budget suspends revenue sharing transfers of 5% of the Sales, Income, Corporate and Service Provider taxes to municipalities in the amount of \$281.5 million during the 2014-2015 biennium. The 2014-2015 biennial budget includes the repayment of a deferral of a portion of the June 2013 subsidy payment for General Purpose Aid to Local Schools in the amount of \$18.5 million, limits benefits under the Maine Residents Property Tax program resulting in an estimated savings of \$73.4 million over the biennium and reorganizes the Business Equipment Tax Reimbursement (BETR) and Business Equipment Tax Exemption (BETE) programs for a savings of \$11.7 million over the biennium. Finally, the Governor's recommended budget repeals the sales tax exemption for publications issued at average intervals, suspends the inflation adjustment for tax years beginning in 2014 and amends the inflation adjustment calculation for tax years beginning after 2015 based on the Chained Consumer Price Index (CPI) instead of the CPI. These tax and fee changes result in estimated savings to the General Fund of \$4.5 million in fiscal year 2014 and \$10.8 million in fiscal year 2015.

The Governor's budget proposal is under consideration in the Legislature and no final action has yet been taken.

On January 11, 2013, the Governor released his supplemental budget which addressed the revenue shortfall and funded a projected Medicaid shortfall; offsets for the revenue shortfall were initially implemented by the Governor's temporary curtailment of allotments. 2013 Chapter 1 was enacted into law, without the Governor's signature, on March 6, 2013. This supplemental budget for fiscal year 2013 provided \$2 million to address unmet needs in the long standing consent decree for Bates vs. DHHS, \$3.6 million for foster care/adoption assistance and \$85.1 million for the State's Medicaid program. These appropriations were offset with savings initiatives originally included in the temporary curtailment, revenue enhancements, transfers from other funds, as well as targeted reductions in the Medicaid program. The Department of Health and Human Services was directed to reduce rates by 5% for services provided by licensed clinical professional counselors and licensed marriage and family therapists, limit hospital and therapeutic leave days from nursing facilities, and implement targeted care management for the top 20% of high-cost members in the Medicaid program.

On May 1, 2013, the Revenue Forecasting Committee issued a regularly scheduled update to the forecast. The May report reflected an increase to revenues of \$43.5 million in fiscal year 2013, and a downward adjustment of \$33.8 million in fiscal year 2014 and \$24.3 million in fiscal year 2015. The May report also projected revenues of \$3.1 billion in fiscal year 2016 and \$3.2 billion in fiscal year 2017.

On May 8, 2013, the Governor released the recommended changes to the fiscal year 2014-2015 budget proposal, LD 1509, which includes additional recommended changes for fiscal year 2013. This change package addresses the revenue shortfall forecasted on the May 1, 2013 report for the next biennium and utilized the additional revenue forecasted in fiscal year 2013 of \$45.3 million to fund a projected Mainecare shortfall of \$33.4 million, a \$1.9 million initiative added by the legislature in PL 2013, Chapter 1 to delay Mainecare payments until 2014, \$1.0 million for the Maine Commission on Indigent Legal Services and \$3.0 million in assistance for Maine's dairy farmers. This change package provides additional savings in 2014-2015 through initiatives that adjust the savings for retired teacher and retired state employee health insurance, merit and debt service savings. This change package also provides savings from the transfer of available balances in Maine Revenue Services, and statewide initiatives for the installation of natural gas and reduction in rates for risk management. Finally, the Department of Health and Human Services was able to reduce their requests for the biennium by further refining savings proposals, recognizing a lesser reduction to federal funding than originally included and requesting additional staff to perform disability determinations in a timely manner thereby avoiding temporary Medicaid authorizations at a 100% state only cost.

## CERTAIN EXPENDITURES AND OBLIGATIONS

### General Fund Expenditures

The following table sets forth, by certain major categories, General Fund expenditures set forth in 2009 Chapter 213, the budget for fiscal years 2010 and 2011, as amended by the supplemental General Fund budget, 2009 Chapter 571, 2011 Chapter 1 and 2011 Chapter 28.

	<b>2010</b>	<b>2011</b>
Governmental Support and Operations	\$251,862,046	\$236,824,102
Economic Development & Workforce Training	35,707,478	34,588,383
Education	1,412,297,179	1,398,741,990
Arts, Heritage & Cultural Enrichment	7,461,189	7,189,756
Natural Resources Development & Protection	68,419,220	66,225,967
Health & Human Services	795,586,471	850,852,097
Justice & Protection	277,894,340	271,331,877
Transportation		7,000,000
Total	<u>\$2,849,227,923</u>	<u>\$2,872,754,172</u>

The following table sets forth, by certain major categories, General Fund expenditures set forth in 2011 Chapter 380, the budget for fiscal years 2012 and 2013, as amended by the supplemental General Fund budgets, 2011 Chapter 477, 2011 Chapter 655, 2011 Chapter 657, 2013 Chapter 1 and other miscellaneous laws enacted to date.

	<b>2012</b>	<b>2013</b>
Governmental Support and Operations	\$255,174,711	\$259,262,199
Economic Development & Workforce Training	33,738,745	32,351,279
Education	1,373,401,473	1,358,129,798
Arts, Heritage & Cultural Enrichment	7,422,644	7,036,620
Natural Resources Development & Protection	67,994,914	65,000,840
Health & Human Services	1,116,567,462	1,046,754,732
Justice & Protection	275,909,945	273,709,069
Business Licensing & Regulation		3,647,984
Total	<u>\$3,130,209,894</u>	<u>\$3,045,892,521</u>

The authorized budget for fiscal years 2012 and 2013 through the end of the Second Regular Session of the 125th Legislature in May 2012 was approximately \$6.14 billion. Laws enacted during the current session in 2013 increased the budget to \$6.18 billion. The increase is based on a net spending increase in fiscal year 2013 of \$33.7 million. Of the \$6.18 billion in the biennium, 44.23% is attributable to education, 35.02% to health and human services, and 20.75% to other purposes of State government.

For additional information regarding General Fund expenditures during fiscal years 2008 through 2012, and for information regarding Highway Fund expenditures during fiscal years 2008 through 2012, see Exhibits B and C hereto. See also “Certain Public Instrumentalities” herein.

## **Education Funding**

At the initiative of certain citizens of the State, pursuant to the Constitution of the State, the voters of the State voted to enact legislation known as the School Finance Act of 2003 (the “Initiated School Finance Act”) at a statewide election held June 8, 2004. The Initiated School Finance Act required that the Legislature each year provide at least 55% of the cost of the total allocation for K-12 Education from General Fund revenue sources, and 100% of the State and local cost of providing all special education services mandated under federal or State law. The Initiated School Finance Act was amended by 2005 Chapter 2 to provide that, beginning in fiscal year 2009, the Legislature each year will provide, as a target, (a) 55% of the statewide adjusted total cost of the components of Essential Programs and Services, and (b) 100% of a school administrative unit’s special education costs calculated pursuant to applicable State law.

Public Laws of Maine 2007, Chapter 539 which took effect on March 31, 2008 (“2007 Chapter 539”) provided that, as a target, (a) the State would provide 53.51% and 54.01%, respectively, of the statewide adjusted total cost of the components of Essential Programs and Services, and (b) the State would provide 100% of a school administrative unit’s special education costs calculated pursuant to applicable State law for fiscal years 2008 and 2009. The budget for fiscal years 2008 and 2009, as amended by 2007 Chapter 539, included approximately \$1,966,000,000 to fund the State’s share of K-12 Education costs attributable to the Initiated School Finance Act. 2007 Chapter 539 also amended applicable law to provide that the State’s payment of 55% of the total State and local cost of K-12 Education would be delayed until fiscal year 2010, and that inclusion of the State share of the cost of K-12 Education in the General Fund appropriation limit would be delayed until fiscal year 2011.

The Governor’s Executive Order issued in November 2009 included curtailment of State spending for K-12 Education in the amount of approximately \$38.1 million. The supplemental General Fund budget, 2009 Chapter 571, includes a reduction in baseline funding for GPA in fiscal year 2010 in an amount equal to this curtailment, and it also includes a reduction in GPA funding for fiscal year 2011 of approximately \$9 million. These reductions do not violate the “maintenance of effort” requirements of the American Recovery and Reinvestment Act of 2009 (“ARRA”).

With the enactment of the supplemental budget, 2009 Chapter 571, GPA is approximately 48.93% of the total State and local cost of K-12 education in fiscal year 2010 and 45.84% in fiscal year 2011 as amended by 2011 Chapter 1. The State General Fund contribution was approximately \$909.2 million in fiscal year 2010 and approximately \$872.6 million in fiscal year 2011, totaling approximately \$1,781,800,000 for the 2010-2011 biennium. The balance of the government payments are derived from ARRA monies awarded to the State for K-12 Education and added approximately \$116 million over the course of the 2010-2011 biennium. Total payments by the State to local school districts (including ARRA monies) comprised 49.78% of the total cost of Essential Program and Services in fiscal year 2010 and comprised of 47.83% in fiscal year 2011.

The biennial budget enacted in 2011 Chapter 380, as amended by 2011 Chapter 655 and 2013 Chapter 1 for fiscal years 2012 and 2013 includes a State General Fund commitment to the cost of K-12 education of \$888,752,379 in fiscal year 2012 and \$895,071,007 in fiscal year 2013. Those General Fund appropriations result in a 45.05% State share of the total cost of education in fiscal year 2012 and 44.91% in fiscal year 2013. Maine public schools also received Federal Jobs Funds of \$36,214,417 for the 2012-13 biennium to help retain or hire critical staff. The enacted budget also includes the State

share of teacher retirement, retired teacher's health insurance, and retired teacher's life insurance of \$172,592,848 in 2012 and \$174,932,892 in 2013 when considering the State's contribution for Essential Programs and Services. Including the State contribution to teacher retirement, retired teacher's health insurance, and retired teacher's life insurance the State's contribution towards the total cost of education is 49.47% in fiscal year 2012 and 49.35% in fiscal year 2013.

## **Health and Human Services Funding**

After education, proposed spending for health and human services and programs comprise the second most significant area of expenditure, at approximately 35.02% of General Fund appropriations for the 2012-2013 biennium. Furthermore, General Fund expenditures for the State's Medicaid program, MaineCare, are the largest, comprising \$1.45 billion or 70.1%, of all health and human services spending. The State continues to make significant efforts to hold down the rate of increase in the growth of MaineCare expenditures. While remaining committed to provide access to care for the State's most vulnerable residents, the State is employing even more aggressive care management techniques, continues to standardize provider reimbursement rates and has developed more capacity in the area of third party recovery. Regardless of these efforts, additional General Fund resources were needed in 2011 Chapter 1 and 2011 Chapter 28 for fiscal year 2011 totaling \$46 million, in 2011 Chapter 380 funding amounting to approximately \$118 million was provided for the 2012-2013 biennium. The first 2012-2013 supplemental budget, 2011 Chapter 477, proposed more changes to the MaineCare program in the areas of generic drug utilization, opioid prescribing policies, rate reform, service limitations and enhanced efforts in the area of collection of overpayments, legal settlements and through increased cost avoidance, yet provided funding to address an estimated shortfall of \$108 million. A second 2012-2013 supplemental , 2011 Chapter 657, included structural changes to the MaineCare program by eliminating some Medicaid optional services and coverage options; despite these initiatives, additional 2012-2013 General Fund resources of approximately \$66.8 million were required. Several of the changes proposed in 2011 Chapter 657 required the approval of the Centers for Medicare and Medicaid Services (CMS). The Department of Health and Human Services was notified that some of the proposals would violate the Maintenance of Effort provisions of the Affordable Care Act and therefore could not be implemented. The Department's budget was reduced in 2011 Chapter 657 and without approval from CMS the Department would require additional General Fund monies in fiscal year 2013. The Governor's supplemental budget addressed this issue, as well as an overall shortfall in the program. 2013 Chapter 1 was enacted on March 6, 2013 and provided \$85 million for the Medicaid program to continue providing payments in fiscal year 2013.

During fiscal year 2008-09 and the 2010-2011 biennium, the ARRA provided a substantial infusion of federal funds into the MaineCare program which was primarily in the form of enhanced federal matching dollars. This funding assisted the State in meeting the increases in demand for MaineCare services occurring as a result of the economic downturn and in redeploying some General Fund resources to provide more timely payment of MaineCare settlements to Maine hospitals, helping to ensure those facilities are able to retain employees, avoid further job losses and maintain the spectrum of services required by residents, particularly in rural areas of the State. However, the extension passed by Congress phased down the federal match rate and required Maine to provide additional General Fund support of \$33 million in fiscal year 2011. The 2012-2013 baseline appropriation for the Medicaid program provided approximately \$360 million in General Fund resources necessary to replace reduced federal funds.

The 2012-2013 budget supported Maine's efforts to pay its obligations to hospitals on a timely basis. General Fund resources of approximately \$63 million were designated to transition payments to Maine's noncritical access hospitals from a prospective interim payment system to methodologies based on diagnosis related groupings and ambulatory payment classifications in order to pay hospitals on a

real-time basis and reduce the use of paying hospital settlements several years after hospitals have incurred costs. The budget also continued the effort to pay outstanding hospital settlements through an initiative which provided over \$9 million General Fund resources from 2012 year end balances.

In recent years, the State has accrued a liability to hospitals for Medicaid services provided by such hospitals with the use of a Prospective Interim Payment methodology. In the 2012-2013 budget, Maine transitioned from the Prospective Interim Payment system to methodologies based on Diagnosed Related Groupings and Ambulatory Payment Classifications, which pays Maine's noncritical access hospitals on a real-time basis, based on claims. As of June 30, 2012, the aggregate liability totaled approximately \$484.4 million, of which \$186.3 million was the State share, with the balance expected to be paid on or after October 1, 2013 by the federal government as its federal match. In order to address this liability, the Governor has proposed that the Legislature authorize the Maine Municipal Bond Bank to issue up to \$187.0 million of revenue bonds, the proceeds of which will be used, together with federal moneys, to satisfy this obligation to the hospitals. The bonds would be payable from moneys to be received in connection with an agreement for certain wholesale liquor activities. This legislation, LD 239, is pending before the Legislature and the State cannot now predict whether this legislation will be enacted or whether any other actions will be taken during the current legislative session to address the accrued hospital liabilities.

For additional information regarding the impact of these unpaid amounts on the State's General Fund Unassigned Balance and related matters, see Management's Discussion and Analysis in the State's financial statements on page B-15 and Note 4 in the State's financial statements in Exhibit B.

The 2012-2013 budgets have also continued funding for its patient-centered medical home initiative to encourage Maine health care providers to provide better access to primary care physician services to MaineCare members. Funding was also provided to address shortfalls in the municipal General Assistance program resulting from the economic downturn, to pay for the cost of forensic patients at the State's psychiatric hospitals, to provide sufficient resources for the foster care and adoption assistance programs, to service individuals with intellectual disabilities and autism who are current waiting for services, to increase funding available for mental health services to those not Medicaid eligible and for housing services for individuals with mental illness.

The 2014-2015 budget bill, LD 1509, continues with the priorities identified in previous budget documents. The Department requests additional resources in both 2014 and 2015 to address needs in the Medicaid program. In addition to the request for increases to the baseline budgets, the Department has requested the funding necessary to fill waiver slots on two of the State's largest Medicaid waivers serving those with developmental or intellectual disabilities. Funding requests were also included for the General Assistance program while coupled with structural changes to the program mitigated a larger request. The State continues to request funding to provide additional mental health services to those not Medicaid eligible and to adequately fund the foster care/adoption assistance programs based on the increasing number of children in care. In an effort to reduce expenditures and restructure the services offered by the Department of Health and Human Services, there are several proposals in the budget which would reduce programs or eligibility after January 1, 2014. A proposal to roll back the Medicare Savings Plan to the level required by the federal government and eliminate a state only pharmacy assistance program for the elderly are two of the options included. The Department also proposes to save funds based on the care management of high-cost users in the Medicaid program.

The Governor's Office is still evaluating its options on any Medicaid expansion relating to the enactment of the federal Affordable Care Act. The Department of Health and Human Services has had discussions with the Centers for Medicare and Medicaid Services regarding expansion and awaits responses to several questions. It is anticipated that the expansion will have some financial impact on

residents in Maine who have been eligible for MaineCare but have chosen not to apply and who will forego private health insurance because they are MaineCare eligible. It is expected that 100% of the medical expenses for these residents would be covered by the federal government.

## **Debts of the State**

As of April 30, 2013, there were outstanding general obligation bonds of the State in the principal amount of \$442,260,000, including \$318,745,000 to be paid from the General Fund and \$123,515,000 to be paid from the Highway Fund. Debt service requirements to maturity for the outstanding general obligation bonds are set forth in Exhibit D herein.

As of the date hereof, there are no outstanding tax anticipation notes of the State. As of the date hereof, the State is using interfund borrowings from the State investment pool in the amount of \$133,000,000 to satisfy its fiscal year 2013 cash flow needs. The State also plans to continue to use internal cash flow borrowing to meet cash flow needs in fiscal year 2014. Additional external borrowing may be needed in fiscal year 2014. The amount budgeted to be borrowed externally in fiscal year 2014 is not currently expected to exceed \$150,000,000. If external borrowing is required, a combination of tax anticipation notes and a proposed line of credit could be used. The timing and amount of any such borrowings will depend upon the actual cash flow needs of the State.

As of the date hereof, there is indebtedness authorized by the voters of the State for certain purposes, but unissued as either bonds or notes, in the aggregate principal amount of \$104,577,809. As of the date hereof, the aggregate principal amount of bonds of the State authorized by the Constitution and implementing legislation for certain purposes, but unissued, is \$99,000,000. See “Fiscal Management – Constitutional Debt Limit” and “Certain Public Instrumentalities – Finance Authority of Maine” and “– Maine State Housing Authority” herein.

For additional information concerning long-term debts of the State, see Exhibit D hereto.

## **Lease Financing Agreements**

From time to time, the State enters into lease agreements for the purpose of acquiring or financing capital equipment and buildings. A lease agreement is secured solely by the equipment or building which is the subject of such agreement and is not a pledge of the full faith and credit of the State. Lease payment obligations are subject to appropriation by the Legislature. In certain instances, the State has issued certificates of participation in the lease payments to be made pursuant to certain lease agreements. As of March 31, 2013, the aggregate principal amount of such lease obligations outstanding was \$57,577,559. For additional information regarding such lease agreements, see Exhibit D hereto. For information regarding rental payments to be made by the State, subject to appropriation, to the Maine Governmental Facilities Authority, see “CERTAIN PUBLIC INSTRUMENTALITIES - Maine Governmental Facilities Authority.”

## **Defined Benefit Retirement Programs**

**Overview.** The Maine Public Employees Retirement System (“MainePERS” or “System”) administers three defined benefit pension plans (often referred to as “Programs”) on behalf of the State with approximately the following membership as of June 30, 2012: the State Employee and Teacher Retirement Program, with 39,360 active, 34,358 inactive, non-vested, 6,291 terminated, vested and 30,485 retired members and surviving beneficiaries; the Judicial Retirement Program, with 59 active, 0 inactive, non-vested, 0 terminated, vested and 63 retired members and surviving beneficiaries; and the Legislative Retirement Program, with 175 active, 112 inactive, non-vested, 87 terminated, vested and

141 retired members and surviving beneficiaries (collectively “State Plans”). In addition, MainePERS administers the Participating Local District Consolidated Plan on behalf of 293 participating state and local public entities (“PLDs”). In addition, the System also administers a group life insurance plan which provides or makes available life insurance benefits for active and retired System members and employees of certain PLDs. As of June 30, 2012, the System’s group life insurance plan, for actuarial purposes, was comprised of approximately 31,104 active members and 17,030 retirees, which includes 5,573 PLD active members and 2,590 PLD retirees and surviving beneficiaries. The State has no retirement or group life insurance obligations to the PLDs or to their covered employees. The trust fund balances associated with each plan administered by MainePERS are segregated. The funds are commingled only for investment purposes. The administrative operating expenses of the System are charged against each trust fund balance as directed by statute and in accordance with generally accepted accounting standards. The budgeted administrative operating expenses of the System for fiscal year 2013 are \$11,101,554.

The System’s retirement programs provide defined retirement benefits based on members’ three-year average final compensation and service credit earned as of retirement. Vesting (i.e., eligibility for benefits upon reaching qualification) occurs upon the earning of five years of service credit (effective October 1, 1999, the prior ten-year requirement was reduced by legislative action to five years for state employees and teachers; separate legislation enacted the same reduced requirement for judges, legislators, and employees of PLDs). Vesting also occurs upon the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Normal retirement age for “regular service retirement plan” State employees and teachers, judges and legislative members is age 60, 62 or 65<sup>1</sup>. The normal retirement age is determined based upon the amount of service to which a member is credited as of a specific date. For “regular service retirement plan” PLD members, normal retirement age is 60. The monthly benefit of members who retire before normal retirement age by virtue of having at least 25 years of service credit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. The System also provides disability and death benefits which are established by statute for State employees and teacher members and by contract with other participating employers under applicable statutory provisions.

Upon termination of membership, members’ accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual rate of interest credited to members’ accounts is set by the System’s Board of Trustees and is currently 5.0%. Employer contributions for terminated members are not refunded and remain assets of the applicable plan.

### **Other Available Information**

The following documents related to the System and the Programs are incorporated herein by reference:

- Comprehensive Annual Financial Report of the System for the fiscal year ended June 30, 2012 available at <http://mainepers.org/PDFs/other%20publications/CAFR12.pdf>
- Actuarial Valuation Report for each of the retirement programs administered by the System as of June 30, 2012 available at [www.mainepers.org/bonds.htm](http://www.mainepers.org/bonds.htm).

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<sup>1</sup> Because of the nature of their jobs, certain employees, typically those in law enforcement positions, are members of a “special service retirement plan,” rather than the “regular service retirement plan” which covers most employees. Special plans typically differ from regular plans in the areas of retirement eligibility requirements, benefit determination, and contribution rates. Special plans are typically more expensive than regular plans.

- Final Report of the State Employee and Teacher Retirement Program experience study, dated December 22, 2011 available at [http://www.maineopers.org/PDFs/Bonds/Maine%20Assumption%20Changes\\_12222011\\_vf.pdf](http://www.maineopers.org/PDFs/Bonds/Maine%20Assumption%20Changes_12222011_vf.pdf).
- “New Pension Plan Design and Implementation Plan” dated March 2012 prepared by the New Pension Plan Working Group available at [http://www.maineopers.org/Pensions/NPP\\_Report\\_3-5-2012.pdf](http://www.maineopers.org/Pensions/NPP_Report_3-5-2012.pdf).
- New Pension Plan proposed legislation and plan document submitted to the Joint Standing Committee on Appropriations and Financial Affairs on January 15, 2013 available at <http://maineopers.org/Pensions/NPPI%20Package%2001172013.pdf>.

For additional information about the System contained in this Information Statement, see also Note 9 and Required Supplementary Information in the State’s financial statements on pages B-60 – B-65 and B-101 – B-103 herein and “Exhibit E – Maine Public Employees Retirement System Actuarial Balance Sheet, June 30, 2012”.

### **Funding Policy and Status**

The costs of the State Plans, including those of the State Employee and Teacher Retirement Program, generally consist of two elements:

**Normal Costs** - the present value of future pension benefits earned by employees in the current year. Normal costs are based on each year’s projected annual collective employee earnings. The State’s share of the normal cost was 5.5% of such earnings from July 1, 2007 through June 30, 2011. As a result of an experience study as well as changes to the plan design, as described below in “Recent Legislative Changes Affecting Benefits Levels” effective July 1, 2011, the State’s share of the normal cost was reduced to 2.94%, in effect for the fiscal years 2012 and 2013. The State’s share of the normal cost for fiscal years 2014 and 2015 is 3.67%. Most State employees and teachers are required by statute to contribute 7.65% of their earnings. As previously noted, some State employees may pay a higher rate as a result of participation in a so-called “special plan”, which typically permit a member to retire younger or with fewer years of service. Other State employees may pay a lesser rate as a result of a collective bargaining agreement or other arrangement with the State. The employee contribution rate did not change as a result of the recent experience study or plan design changes.

**Unfunded Actuarial Accrued Liability (UAAL)** - the amount by which the actuarial liability for current and former employees is greater than pension assets. The actuarial liability is the present value of prospective pensions owed to members when they retire based on service as of the calculation date.

State Employee and Teacher Retirement Program annual and/or biennial costs are defined as those normal and UAAL costs required by State law and the Maine Constitution to fund the plan. The State is currently required by the Maine Constitution to fully fund the State Employee and Teacher Retirement Program by June 30, 2028.

Maine is one of 14 states that do not participate in Social Security for State employees, judges, legislators or teachers while they are active members of the State Plans. Neither the State nor covered plan members contribute any amounts to Social Security. This means that covered members do not earn Social Security credits.

The State appropriates funding for pension costs associated with the State Plans, covering all State employees and teachers, legislators and judges. Retirement, disability and death benefits provided by the System are funded by employee contributions as set by statute and by employer contributions determined on an actuarial basis. An actuarial valuation is prepared annually and the valuation completed in the even year for each of the state's three defined benefit plans is used to determine the State's employer contribution requirements for the ensuing biennium. For example, the valuation as of June 30, 2010 was used to set contributions for the 2012-2013 biennium, and the valuation dated as of June 30, 2012 was used to establish the contributions to be made in the 2014-2015 biennium.

For State employees and teachers, the State's annual required contribution (the "ARC") is comprised of the normal cost contribution plus the payment required to amortize the State Employee and Teacher Retirement Program's UAAL. As of June 30, 2012, the actuarial value of assets of the State Employee and Teacher Retirement Program (which does not include members of the judicial and legislative programs) was \$8,880,730,120 and the actuarial accrued liability was \$11,553,306,281 resulting in a UAAL of \$2,672,576,161 and a funded ratio of 76.9%. The State is obligated under an amendment to the Maine Constitution adopted in 1995 to amortize the UAAL of the State Employee and Teacher Retirement Program as of June 30, 1996 by no later than the end of fiscal year 2028. As of June 30, 2012, 16 years remained in the current, constitutionally mandated amortization period for the unfunded liability of the State Employee and Teacher Retirement Program. The Maine Constitution also prohibits the creation of new unfunded liabilities other than those arising from experience losses. Any such liabilities are required to be amortized within 10 years. The constitutional requirement does not apply to the Legislative Retirement Program or the Judicial Retirement Program. MainePERS monitors all relevant proposed bills to ensure continued compliance with the constitutional requirement.

The judicial retirement plan had an actuarial surplus of \$3,394,326 at June 30, 2012. The legislative retirement plan had an actuarial surplus of \$3,078,780 at June 30, 2012.

The State has generally funded its annual required contribution for State employees, teachers, judges and legislators as shown in the table below. Differences between the ARC and the actual contribution may be the result of the differences between projected and actual salary amounts for any given year. Differences may also be the result of additional contributions paid by the State, as required by statute, from general fund surplus money available at the close of a given fiscal year.

<b>Valuation Date 6/30/YY</b>	<b>Annual Required Contribution</b>	<b>Actual Contribution</b>	<b>Percent Contributed</b>
2012	\$252,830,000	\$252,830,000	100.0%
2011	328,075,000	333,944,000	101.8
2010	317,992,000	329,207,000	103.5
2009	320,112,000	320,112,000	100.0
2008	305,361,000	305,361,000	100.0
2007	303,076,000	303,075,774	100.0
2006	286,439,000	303,438,610	106.0
2005	261,698,000	274,697,901	105.0
2004	251,483,000	273,482,848	108.8
2003	252,709,000	263,209,148	104.2
2002	242,486,000	242,486,089	100.0

As of June 30, 2012, the State had a net pension obligation (“NPO”) in connection with the State Plans of \$2,010,781. The NPO is the cumulative difference between annual pension cost and the employer's contributions to a plan, including the pension liability or asset at transition, if any. Measured is the annual pension cost equal to (a) the ARC, (b) one year's interest on the NPO, and (c) an adjustment to the ARC to offset the effect of actuarial amortization of past under- or over-contributions. “Transition” refers to the point in time when the employer implemented GASB Statement # 27 and measured its initial pension liability or asset at that point in time.

The amount paid by the State in fiscal year 2012 was \$252,830,000. The amounts projected to be paid by the State in fiscal years 2013, 2014 and 2015 are \$256,769,981, \$295,529,000 and \$305,439,822, respectively.

The ARC originally determined for the 2012-2013 biennial budget was based upon an estimate of the assets and liabilities as of June 30, 2010. The estimated assets included the June 30, 2010 assets (at market value), except that the private market values were based on the March 31, 2010 value, with a projection of total cash flows for the year. The liabilities included the June 30, 2009 liabilities, rolled forward based on projected actuarial assumptions for fiscal year 2010. This new process, as compared to the prior process of waiting for all values at June 30 to become available, was recommended by Cheiron, the System’s actuary, and approved by the System’s Board of Trustees, and was implemented in order to provide employer contribution rates to the State as early as possible in the biennial budget process. The completion of the actuarial valuation as of June 30, 2010 by the System’s actuary, using all values as of June 30, 2010, demonstrated no material difference between the estimated results, used to establish the employer contribution, and the results of the actual valuation. This same methodology was used to determine the ARC for the 2014-2015 biennial budget.

**Recent Actuarial Assumption Changes.** State law provides that at least once in each six-year period, the System’s actuary is to make an investigation into account program demographics and changes in program demographics, employment patterns and projections, relevant economic measures and expectations and other factors that the Board or actuary considers significant. The actuary must also make recommendations for certain modifications of the actuarial assumptions, as needed. As a result of the 2008 adverse market conditions and a specific request from the Legislature in September 2010, the System conducted an experience study for the State Employee and Teacher Retirement Program, which has resulted in the adoption of different assumptions, as described below. Changes to the economic

assumptions implemented as a result of the experience study also apply to the Legislative Retirement Program and the Judicial Retirement Program. The final report of the experience study is available at <http://www.mainebers.org/bonds.htm>.

The results of the experience study led to the adoption by the System's Board of Trustees on April 14, 2011 of certain changes in economic and demographic actuarial assumptions used in the calculation of the liabilities of the State Employee and Teacher Retirement Program.

The key findings as it relates to the demographic assumptions were as follows:

Retirement	Generally more members than expected retire before age 60, and fewer than expected retire after age 60
Turnover	Very close to assumed levels up to 15 years of service; more than expected above 15 years of service
Disability	Very close to assumed levels up to age 50; less than expected above age 50
Mortality	Fewer male deaths and more female deaths occurred than were expected
Individual Salary (Merit)	Increases were generally less than previously assumed

The actuary recommended updating the demographic assumptions, moving partway towards the observed experience and keeping with sound actuarial practices. The MainePERS Board of Trustees adopted the demographic assumption changes recommended by the actuary. The aggregate impact of adoption of these demographic changes was estimated to increase the UAAL by approximately \$200 million.

The MainePERS Board of Trustees also adopted the following changes to the economic assumptions, as recommended by the actuary:

	Old Assumption	New Assumption
Discount Rate	7.75%	7.25%
Inflation	4.75%	1.5% for two years and 3.5% thereafter

The impact of the reduction in the discount rate was estimated to increase the UAAL by approximately \$700 million. The impact of the reduction in the inflation assumption was estimated to decrease the UAAL by approximately \$1.1 billion. The net impact of all the changes to the actuarial assumptions was an estimated decrease in the UAAL by approximately \$200 million.

The application of the newly adopted actuarial assumptions to the June 30, 2010 valuation resulted in a decrease in the ARC for the 2012-2013 biennium. The System directed its actuaries to perform the recalculation, which, in combination with the plan changes (see "Recent Legislative

Changes Affecting Benefits Levels” below), resulted in changes to the ARC for all State Plans for the 2012-2013 biennium.

**Actuarial Valuation.** By State law, the System’s assets and liabilities are calculated annually by the System’s actuaries. Each even year’s valuation serves as the basis for the State’s ARC in the biennium that begins two years from the date of the valuation. This report is delivered to the State in late October and contains an actuarial valuation of the plans administered by the System as of the end of the most recent fiscal year and sets out the ARC for the upcoming biennium. The report also includes, for each plan, a description of the actuarial assumptions and methods used, a brief summary of the principal plan provisions and a summary of member data. The actuarial reports for the fiscal year ending June 30, 2012 (the most recently completed actuarial report) are incorporated by reference herein and are available at [www.maineopers.org/bonds.htm](http://www.maineopers.org/bonds.htm).

The actuarial valuation calculates the actuarial accrued liability for each of the defined benefit plans, which represents the present value of benefits the System will pay to its retired members and active members upon retirement, based on certain demographic and economic assumptions. Some examples of these assumptions include an expected rate of return on assets, age of retirement of active members, future salary increases for current employees and assumed mortality rates for retirees and beneficiaries. If the actual experience of a plan differs from these assumptions, the UAAL of the plan may increase or decrease to the extent of any such variance. This could have a resulting impact on the ARC, which may increase or decrease the amount of the State’s contribution to the plans. As previously discussed, the actuarial assumptions of the State Employee and Teacher Retirement Program were recently changed to reflect the results of the latest experience study. See “Recent Actuarial Assumption Changes” above. See also “Recent Legislative Changes Affecting Benefits Levels” below for information regarding legislative changes and the resulting impact on the UAAL and required contributions.

The actuarial valuation also compares the actuarial accrued liability with the actuarial value of assets and any excess of that liability over the assets forms the UAAL of the system. The actuarial valuation will express the percentage that a plan is funded through a “funded ratio,” which represents the actuarial value of assets of the plan divided by the actuarial accrued liability of such plan. The actuarial valuation will also state an annual required contribution (“ARC”), which is a recommended amount that the State and other sponsoring employers contribute to the applicable plan. The ARC consists of two components: (1) normal cost, which represents the portion of the present value of retirement benefits that are allocable to active members’ current year service, and (2) an amortized portion of the UAAL.

With respect to the expected rate of return of assets, the actual rate of return on investments depends on the performance of its investment portfolio. The value of the securities and other investments in the investment portfolio changes from one fiscal year to the next, which, in turn, causes increases or decreases in the funded ratio of each plan and in the UAAL. Currently, the assumed rate of return is 7.25%. This is a reduction from the earlier assumed earnings rate of 7.75% and results from the Board’s adoption of new actuarial assumptions at its April 14, 2011 meeting, as described above. For fiscal year 2012, the actuarial rate of return of the assets was 4.77% as compared to an actual market rate of return of .50%. Information about the System’s Investment Program is available at [www.maineopers.org/Investments/Investments.htm](http://www.maineopers.org/Investments/Investments.htm).

The following table sets out the actual rate of investment return as compared to the actuarial assumed rate of return (taking into account the three-year smoothing method described below) for the calendar years 2012 through 1990, inclusive.

<b>Calendar Year</b>	<b>Actual Rate of Investment Return</b>	<b>Actuarial Assumed Rate of Return*</b>
2012	12.86%	7.25%
2011	0.22	7.25
2010	12.20	7.75
2009	21.50	7.75
2008	-27.60	7.75
2007	9.10	7.75
2006	11.30	7.75
2005	7.70	8.00
2004	13.10	8.00
2003	25.60	8.00
2002	-10.30	8.00
2001	-5.00	8.00
2000	-3.80	8.00
1999	15.30	8.00
1998	15.30	8.00
1997	18.50	8.00
1996	13.50	8.00
1995	25.70	8.00
1994	-0.10	8.00
1993	13.90	8.00
1992	7.20	8.00
1991	23.90	8.50
1990	0.00	0.09

\*Changes effective July 1 of stated year

In addition to the above-described assumptions, the actuarial valuations of the plans use the entry age normal (“EAN”) method to calculate the actuarial value of assets and actuarial accrued liability. The System believes that the EAN method is a more accurate indicator of actuarial funding progress and it is now, in fact, the predominant method used by public retirement systems throughout the United States.

An additional actuarial method used in arriving at the actuarial valuation is so-called “smoothing,” whereby the difference between the market value of assets and the actuarial value of assets is smoothed over a period of three years to offset the effects of volatility of market values in any single year. The following chart presents, for each program, the actuarial accrued liability, the actuarial value of assets, the unfunded actuarial liability, the funded ratio of the plan based on the actuarial value of assets, the market value of assets, the funded ratio of the plan based on the market value of assets and the ratio of the actuarial value of assets over the market value of assets.

### State & Teachers

Valuation date 6/30/YY	Actuarial Accrued Liability	Actuarial Assets	Unfunded Actuarial Liability	Funded Ratio (AVA)	Market Assets	Funded Ratio (MVA)	Actuarial Assets Over Market
2012	\$11,553,306,281	\$8,880,730,120	\$2,672,576,161	76.87%	\$8,453,862,754	73.20%	105.10%
2011	11,281,665,186	8,736,885,121	2,544,780,065	77.44	8,677,947,874	76.90	100.70
2010	12,617,144,005	8,313,459,810	4,303,684,195	65.90	7,239,332,094	57.40	114.80
2009	12,321,219,332	8,325,951,236	3,995,268,096	67.60	6,620,849,642	53.70	125.80
2008	11,668,032,511	8,631,557,629	3,036,474,882	74.00	8,311,970,624	71.20	103.80
2007	11,157,770,138	8,245,520,019	2,912,250,119	73.90	8,668,381,195	77.70	95.10
2006	10,547,299,194	7,504,219,546	3,043,079,648	71.10	7,503,201,781	71.10	100.00
2005	9,999,250,038	6,964,597,457	3,034,652,581	69.70	6,997,802,832	70.00	99.50
2004	9,442,389,399	6,452,570,244	2,989,819,155	68.30	6,280,951,942	66.50	102.70
2003	9,442,389,399	6,452,570,244	2,989,819,155	68.30	6,280,951,942	66.50	102.70
2002	8,469,835,410	5,877,158,371	2,592,677,039	69.40	5,092,119,785	60.10	115.40

### Judicial

Valuation date 6/30/YY	Actuarial Accrued Liability	Actuarial Assets	Unfunded Actuarial Liability	Funded Ratio (AVA)	Market Assets	Funded Ratio (MVA)	Actuarial Assets Over Market
2012	\$46,340,678	\$49,735,004	-\$3,394,326	107.32%	\$47,344,407	102.2%	105.10%
2011	47,868,297	49,324,784	-1,456,487	103.0	\$48,992,049	102.4	100.7
2010	53,149,699	47,677,635	5,472,064	89.70	41,517,520	78.10	114.80
2009	50,543,320	48,478,344	2,064,976	95.90	38,550,289	76.30	125.80
2008	47,634,452	50,418,942	-2,784,490	105.80	48,552,160	101.90	103.80
2007	46,842,351	48,225,053	-1,382,702	103.00	50,698,214	108.20	95.10
2006	43,102,409	44,350,649	-1,248,240	102.90	44,344,633	102.90	100.00
2005	41,804,673	41,842,216	-37,543	100.10	42,041,709	100.60	99.50
2004	36,388,731	39,210,995	-2,822,264	107.80	38,168,105	104.90	102.70
2003	41,931,130	41,842,216	88,914	99.80	42,041,709	100.30	99.50
2002	35,752,969	37,071,019	-1,318,050	103.70	32,119,276	89.80	115.40

### Legislative

Valuation date 6/30/YY	Actuarial Accrued Liability	Actuarial Assets	Unfunded Actuarial Liability	Funded Ratio (AVA)	Market Assets	Funded Ratio (MVA)	Actuarial Assets Over Market
2012	\$6,243,939	\$9,322,419	-\$3,078,780	149.31%	\$8,874,321	142.10%	105.10%
2011	5,725,193	9,040,180	-3,314,987	157.90	8,979,197	156.80	100.70
2010	6,073,364	8,634,635	-2,561,271	142.20	7,519,010	123.80	114.80
2009	5,499,809	8,717,885	-3,218,076	158.50	6,932,518	126.10	125.80
2008	5,605,005	9,099,133	-3,494,128	162.30	8,762,234	156.30	103.80
2007	5,095,638	8,721,571	-3,625,933	171.20	9,168,846	179.90	95.10
2006	7,944,468	7,944,468	0	100.00	7,943,390	100.00	100.00
2005	7,406,475	7,406,475	0	100.00	7,441,788	100.50	99.50
2004	6,827,478	6,827,478	0	100.00	6,645,888	97.30	102.70
2003	7,406,475	7,406,475	0	100.00	7,441,788	100.50	99.50
2002	6,246,247	6,246,247	0	100.00	5,411,908	86.60	115.40

ALL STATE PLANS							
Valuation date 6/30/YY	Actuarial Accrued Liability	Actuarial Assets	Unfunded Actuarial Liability	Funded Ratio (AVA)	Market Assets	Funded Ratio (MVA)	Actuarial Assets Over Market
2012	\$11,605,890,598	\$8,939,787,543	\$2,666,103,055	77.00%	\$8,510,081,482	73.30%	105.10%
2011	11,335,258,676	8,795,250,085	2,540,008,591	77.60	8,735,919,120	77.10	100.70
2010	12,676,367,069	8,369,772,080	4,306,594,989	66.00	7,288,368,624	57.50	114.80
2009	12,377,262,461	8,383,147,465	3,994,114,996	67.70	6,666,332,449	53.90	125.80
2008	11,721,271,967	8,691,075,704	3,030,196,263	74.10	8,369,285,018	71.40	103.80
2007	11,209,708,127	8,302,466,643	2,907,241,484	74.10	8,728,248,255	77.90	95.10
2006	10,598,346,071	7,556,514,663	3,041,831,408	71.30	7,555,489,804	71.30	100.00
2005	10,048,461,186	7,013,846,148	3,034,615,038	69.80	7,047,286,328	70.10	99.50
2004	9,485,605,608	6,498,608,717	2,986,996,891	68.50	6,325,765,935	66.70	102.70
2003	9,491,727,004	6,501,818,935	2,989,908,069	68.50	6,330,435,439	66.70	102.70
2002	8,511,834,626	5,920,475,637	2,591,358,989	69.60	5,129,650,969	60.30	115.40

For further information regarding the actuarial method and significant assumptions used to determine the ARC, see Note 6 to the System's Comprehensive Annual Financial Report for the year ended June 30, 2011, which is available at [www.mainebers.org/Publications/Publications.htm](http://www.mainebers.org/Publications/Publications.htm), and also "Recent Actuarial Assumption Changes" above. The estimated market value of All State Plans as of March 31, 2013 was \$9,207,277,243. More recent values are not yet available.

**Recent Legislative Changes Affecting Benefits Levels.** The Legislature has in the past adopted laws that have had the effect of both increasing and decreasing future retirement benefits payable under one or more of the State Plans. Any increases in retirement benefits have the effect of increasing the actuarial accrued liability of the plan, which also has the effect of increasing the ARC with respect to the State Plans. Any decreases in benefits have the effect of limiting the future growth of the actuarial accrued liability of the plan, which also has the effect of limiting the growth of the ARC for the State for the plan in future years.

By virtue of Article 9, Section 18-A of the Maine Constitution, unfunded liabilities cannot be created in the State Employee and Teacher Retirement Program, except those liabilities resulting from experience losses. Any unfunded liabilities arising from experience losses are further required to be amortized over a period of no more than 10 years.

In June 2011, the 125<sup>th</sup> Legislature passed 2011 Chapter 380, the biennial budget for fiscal years 2012 and 2013. Part U of the budget established a working group to develop an implementation plan designed to close the current State Employee and Teacher Retirement Program and replace it with a retirement benefit plan that is supplemental to Social Security. The new plan would apply to all state employees and teachers first hired after June 30, 2015. In March, 2012, the Working Group issued its report entitled "New Pension Plan Design and Implementation Plan" which is available at [www.mainebers.org](http://www.mainebers.org). The Legislature considered the report and enacted additional legislation that required MainePERS to submit, no later than January 15, 2013, proposed legislation to implement the new plan as described in the report. The proposed legislation and accompanying documents, submitted by MainePERS on January 15, 2013, can be found at <http://mainepers.org/Pensions/NPPI%20Package%2001172013.pdf>.

Pursuant to 2011 Chapter 380, several changes were made to the State Plans. The changes include: changes to the retiree cost-of-living provisions, including a three-year freeze on cost-of-living adjustments, a reduction in the cost-of-living cap from 4% to 3%, and the establishment of a \$20,000 limit on the amount of benefit subject to the cost-of-living adjustment; an increase in the normal retirement age from age 62 to age 65 for non-vested members of the regular plan component of the State Employee and Teacher Retirement Program (the non-special plan tiers); and a change that ties eligibility for subsidized health insurance coverage (health insurance benefits are funded directly by the State) to normal retirement age.

The following table sets forth a projection of the contributions that were expected to be made by the State to pay both the normal cost and to amortize the UAAL of the State Employee and Teacher Retirement Program for the period from fiscal year 2012 through fiscal year 2028 **before** the legislative changes pursuant to 2011 Chapter 380 described above. The dollar amounts are shown both as future year dollars and current year (2011) dollars (discounted at a 3.5% rate). The amounts shown in the table below also reflect the recent experience study changes described above.

<b>Projected Contributions - Pre-Legislative Changes</b>						
<b>Fiscal Year</b>	<b>Normal Cost (future dollars)</b>	<b>Normal Cost (current dollars)</b>	<b>UAL Payment (future dollars)</b>	<b>UAL Payment (current dollars)</b>	<b>Total Payment (future dollars)</b>	<b>Total Payment (current dollars)</b>
2012	\$74,385,840	\$ 74,385,840	\$340,989,985	\$ 340,989,985	\$ 415,375,825	\$ 415,375,825
2013	75,501,627	72,948,432	346,280,748	334,570,771	421,782,375	407,519,203
2014	78,910,322	73,663,630	443,406,392	413,924,612	522,316,714	487,588,241
2015	81,672,183	73,663,630	458,925,615	413,924,611	540,597,798	487,588,241
2016	84,530,710	73,663,630	533,409,081	464,835,198	617,939,791	538,498,828
2017	87,489,285	73,663,630	552,078,399	464,835,198	639,567,684	538,498,828
2018	90,551,409	73,663,630	603,441,533	490,900,076	693,992,942	564,563,705
2019	93,720,709	73,663,630	624,561,987	490,900,076	718,282,696	564,563,706
2020	97,000,934	73,663,630	663,117,371	503,578,995	760,118,305	577,242,625
2021	100,395,966	73,663,630	686,326,479	503,578,995	786,722,445	577,242,624
2022	103,909,825	73,663,630	670,616,161	475,412,413	774,525,986	549,076,043
2023	107,546,669	73,663,630	639,649,452	438,125,150	747,196,121	511,788,780
2024	111,310,802	73,663,630	618,439,186	409,272,724	729,749,988	482,936,354
2025	115,206,681	73,663,630	610,133,908	390,122,155	725,340,589	463,785,785
2026	119,238,914	73,663,630	606,647,320	374,775,667	725,886,234	448,439,297
2027	123,412,276	73,663,630	612,248,652	365,445,477	735,660,928	439,109,106
2028	127,731,706	73,663,630	620,606,971	357,907,709	748,338,677	431,571,339

The amounts shown above were calculated in 2011 prior to enactment of the legislative changes and do not reflect any changed circumstances since they were prepared. They are presented solely for purposes of showing the projected effects of 2011 Chapter 380 by comparison to the table below, which shows the projected contributions after the changes pursuant to 2011 Chapter 380 described above. The following table sets forth the estimated impacts of the recently enacted legislative changes pursuant to 2011 Chapter 380 on the State/Teacher plan for fiscal years 2012 and 2013.

<b>MainePERS Budget/Costs with Legislative Changes</b>	<b>Before Legislative Changes*</b>	<b>After Legislative Changes*</b>	<b>Difference*</b>
<b>FY 2012</b>			
Estimated Normal Cost	\$75	\$50	\$25
Estimated UAL Amortization	<u>341</u>	<u>200</u>	<u>141</u>
Estimated Total Appropriation	416	250	166
<b>FY 2013</b>			
Estimated Normal Cost	76	51	25
Estimated UAL Amortization	<u>346</u>	<u>203</u>	<u>143</u>
Estimated Total Appropriation	422	254	168
<b>FY 2012-13 Estimated Biennial Contribution</b>	<u>838</u>	<u>504</u>	<u>334</u>
*All costs in millions			

The changes in the cost-of-living provisions were the most significant contributor to the reduction in the required fiscal year 2012-2013 biennial contributions as detailed above. Specifically, more than 95% of the reduction can be attributed to those changes. The changes also resulted in a significant reduction in the UAAL of the State/Teacher Plan. The UAAL at the start of fiscal year 2012 was approximately \$1.77 billion less than it otherwise would have been had the plan design changes not been implemented. Of that reduction in the UAAL, approximately 95% can be attributed to the changes made to the cost-of-living provisions. See "Litigation" below.

The following table sets forth a projection of the contributions expected to be made by the State to pay both the normal cost and to amortize the UAAL of the State Employee and Teacher Retirement Program for the period from fiscal year 2012 through fiscal year 2028. The dollar amounts (expressed as millions) are shown both as future year dollars and current year dollars (discounted at a 3.5% rate). The amounts shown in the table below are based on the plan as in effect **after** the changes pursuant to 2011 Chapter 380 and the recent experience study changes, and include the results of the most recent actuarial valuation, as of June 30, 2012.

### Projected Contributions

Fiscal Year	Normal Cost future dollars*	Normal Cost current dollars*	UAL Cost future dollars*	UAL Cost current dollars*	Total Cost future dollars*	Total Cost current dollars*
2012	\$50	\$50	\$200	\$200	\$250	\$250
2013	64	64	203	203	267	267
2014	66	64	243	235	310	299
2015	69	64	252	235	320	299
2016	71	64	281	253	352	317
2017	74	64	290	253	364	317
2018	76	64	316	266	393	331
2019	79	64	328	266	406	331
2020	82	64	342	269	423	333
2021	85	64	354	269	438	333
2022	88	64	361	265	449	329
2023	91	64	364	258	454	322
2024	94	64	369	253	463	317
2025	97	64	363	240	460	304
2026	100	64	354	226	454	290
2027	104	64	359	222	463	286
2028	108	64	368	220	476	284

\*All costs in millions.

The amounts in the preceding paragraph are based on projections derived from current actuarial assumptions and other information now known to the State and the System. The actual amounts required to be contributed by the State in the future will likely differ from these amounts and, depending upon actual circumstances, such differences may be substantial. The actual contributions to be made by the State for any future fiscal year, including the amount required to amortize the then UAAL, will be based upon actual investment results and other factors as they occur in the future and the applicable actuarial valuation used to certify the contribution rates for such year and will reflect all actuarial assumptions and circumstances then in effect. The State cannot predict what the actual dollar amount of required contributions to the System will be for fiscal years beyond fiscal year 2015.

**Group Life Insurance Program.** MainePERS also administers a group life insurance program which is available to eligible participants. As of June 30, 2012, the program had an unfunded actuarial accrued liability (UAAL) of \$107.5 million. The annual required contribution for fiscal year 2012 was \$10.9 million and the annual contribution paid was \$7.0 million, representing 64.3% of the annual required contribution. As the result of a group life insurance premium study in 2012, the actuary recommended an increase in premiums to be more consistent with actual and projected program costs. The Board of Trustees adopted increased rates, which will be implemented in fiscal year 2014. Differences between the annual required contribution and the actual premium may also be the result of the differences between projected and actual coverage amounts for the year.

**Litigation.** On February 13, 2012, a lawsuit was brought by the Maine Association of Retirees and four of its active members against the Board of Trustees of MainePERS in the United States District Court for the District of Maine. The court subsequently granted a motion to intervene filed by the Maine State Employee Association, the Maine Education Association and the Maine State Troopers Association. *Maine Association of Retirees, et al. v. Board of Trustees of the Maine Public Employees Retirement System, Docket No. 1:12-CV-00059-GZS*. The Plaintiffs ask the District Court to declare that the 2011 cost-of-living adjustment (“COLA”) statutes discussed above violate either or both the Contract Clause of and the Fifth Amendment to the Federal Constitution. In the event the court determines that the 2011 COLA statutes violated either provision, the Plaintiffs request that the court

order the MainePERS Board “to make cost-of-living adjustments retroactively beginning in September 2011, and continuing thereafter, pursuant to the provisions of 5 M.R.S.A. § 17806(1)(A) as it provided prior to the enactment of the 2011 COLA amendments for members of the MainePERS System who were retired as of June 20, 2011.” The Plaintiffs also seek an award of costs and attorneys’ fees pursuant to 42 U.S.C. § 1988. The System has filed a Motion to Dismiss and for Summary Judgment, which is scheduled for oral argument before United States District Judge George Singal on May 14, 2013. The final outcome of the lawsuit is impossible to predict as is the expected time frame for resolution. If the Plaintiffs prevail and the legislative changes related to COLA as discussed in "Recent Legislative Changes Affecting Benefits Levels" above are completely reversed by the court, following finding the COLA provisions of 2011 Chapter 380 violated one or more constitutional provisions, it is likely that approximately 95% of the reduction in the State’s fiscal year 2012-2013 biennial contributions and the reduction of \$1.77 billion in the UAAL would also be reversed.

The System is also involved in a small number of administrative appeals brought by members whose requests have been denied by the System. Most often, those cases are appeals from adverse decisions in connection with applications for disability retirement benefits. Less often, there are administrative appeals involving or relating to group life insurance matters or retirement eligibility matters. In each case, the relief requested by appellants is to have the System’s determination in their case reversed and the sought-after benefit granted.

### **Post-Employment Health Care Benefits**

GASB has promulgated its Statement 45 (“GASB 45”) which requires the State, for fiscal years beginning on and after July 1, 2007, to account for retiree health care benefits and other post-employment benefits in a manner similar to that required for pension benefits. GASB 45 does not require that such benefits be funded in advance. If the State continues to pay such benefits as they come due, however, it is expected that annual cost and liability accruals will increase due to GASB 45.

The State funds post-employment health care benefits for most retired State employees and legislators and a portion of the health insurance premiums for retired teachers. The State pays 100 percent of post-employment health insurance premiums for eligible retirees who were first employed on or before July 1, 1991. A pro rata portion, ranging from zero percent for eligible retirees with less than five years participation to 100 percent for eligible retirees with ten or more years of participation, is paid for eligible retirees first employed after July 1, 1991. Retirees who are not eligible for Medicare retain coverage in the same group health plan as active employees. An eligible retiree must pay for Medicare Part B coverage to be eligible to participate in the State-funded companion plan. Coverage for retirees who are not eligible for Medicare includes basic hospitalization, supplemental major medical and prescription drugs, and costs for treatment of mental health, alcoholism, and substance abuse. The State contribution to the health insurance premiums for retired teachers is currently 45 percent. County and municipal law enforcement officers and municipal firefighters began coverage in fiscal year 2008 with the State contributing 45 percent of the cost of their respective plans.

Title 5 MRSA §286-B authorizes an Irrevocable Trust Fund for Other Post-employment Benefits to meet the State’s unfunded liability obligations for retiree health benefits for eligible participants in the State Employee Plan who are the beneficiaries of the irrevocable trust fund. Annually, beginning with the fiscal year starting July 1, 2007, the Legislature shall appropriate funds to meet the State’s obligations under any group health plan, policy or contract purchased by the State Employee Health Commission. Unfunded liabilities may not be created except those resulting from experience losses. Unfunded liability resulting from experience losses must be retired over a period not to exceed 10 years. The unfunded liability for retiree health benefits for eligible participants must be retired in 30 years or

less from July 1, 2007. Public Law 2007 Chapter 240 amended Title 5 MRSA Chapter 421 by establishing the Irrevocable Trust for Other Post-employment Benefits. The Maine Public Employees Retirement System holds and invests long-term funds in the irrevocable trust fund. Its fiduciary responsibilities include setting investment policy in order to fund the plan in accordance with a projected disbursement schedule that does not begin before the year 2027. Public Law 2011, Chapter 380, Pt. Y §2 established separate Irrevocable Trust Funds for Other Post-employment Benefits to meet the State's unfunded liability obligations for retiree health benefits for eligible participants in the Teachers Plan and the First Responders Plan who are the beneficiaries of their irrevocable trust funds. Annually, beginning with the fiscal year starting July 1, 2011 for eligible first responders and July 1, 2013 for eligible teachers, the Legislature shall appropriate funds to meet the State's obligations to retire the unfunded liability in 30 years or less from July 1, 2007.

Contribution requirements are set forth in State law. The annual other post-employment benefit ("OPEB") cost (expense) for each plan is calculated based on the employer's ARC, which is an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The State's annual OPEB cost for fiscal year 2012 and the related information for each plan are as follows:

(Expressed in Thousands)			
	<b>State Employees</b>	<b>Teachers</b>	<b>First Responders</b>
Annual required contribution	\$ 126,000	\$ 55,000	\$ 1,350
Interest on net OPEB obligation	2,000	6,000	114
Adjustment to annual required contribution	(5,000)	(12,000)	(210)
Annual OPEB cost	123,000	49,000	1,254
Contributions made	73,000	22,000	434
Increase (decrease) in net healthcare obligation	50,000	27,000	820
Net healthcare obligation beginning of year	42,228	146,956	2,838
Net healthcare obligation end of year	<u>\$ 92,228</u>	<u>\$ 173,956</u>	<u>\$ 3,658</u>

As of June 30, 2012, there were 9,587 retired eligible State employees, 9,520 retired teachers, and 80 retired first responders. In fiscal year 2012, the State made contributions for other post-employment healthcare benefits of \$73 million for retired employees and \$22 million for retired teachers. The actuarial determined budgeted amounts for fiscal years 2013 and 2014 are \$67 million each year for the State employee plan and \$23 million and \$24 million, respectively, for the teacher plan.

The funded status of the plans as of June 30, 2012 was as follows:

(Expressed in millions)							
	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c	
Plan	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL (as a percentage of covered payroll)
State Employees	June 30, 2012	136	1,316	1,180	10.33%	502	235.06%
	June 30, 2011	112	1,544	1,432	7.25%	567	252.56%
	June 30, 2010	103	1,450	1,347	7.10%	549	245.36%

Teachers	June 30, 2012	0	665	665	0.00%	1,156	57.53%
	June 30, 2011	0	801	801	0.00%	1,098	72.95%
	June 30, 2010	0	994	994	0.00%	1,064	93.42%
First Responders	June 30, 2011	0	22	22	0.00%	42	51.89%
	June 30, 2010	0	19	19	0.00%	54	35.60%
	June 30, 2009	0	20	20	0.00%	52	38.67%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedules of funding progress presented as required supplementary information in the State's audited financial statements (see Exhibit B herein) present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

## Employee Relations

As of April 29, 2013, the State had approximately 11,883 Executive Branch employees.

The State Employees Labor Relations Act allows State employees in the Executive Branch to engage in collective bargaining. As of April 29, 2013, approximately 10,663 employees were covered by the law. There are seven bargaining units within the Executive Branch. The Maine State Employees Association (MSEA-SEIU) is the bargaining agent for four bargaining units which include approximately 9,105 employees. The American Federation of State, County, and Municipal Employees (AFSCME) represents the employees in State institutions; the Maine State Law Enforcement Association (MSLEA) represents those in law enforcement activities excluding State Police; and the Maine State Troopers Association (MSTA) represents the State Police. The Commissioner of Administrative and Financial Services, acting through the Office of Employee Relations within the Bureau of Human Resources, is the Governor's designee for collective bargaining and is responsible for the negotiations and all other employee relations functions. The State remains in negotiations with the MSEA-SEIU for a successor to the agreement that expired June 30, 2011. The State is also engaged in negotiations with AFSCME, MSLEA, and the MSTA for successor agreements to the contracts that will expire June 30, 2013.

Collective bargaining has also been extended to employees of the Judicial Department, Legislative Branch, the University of Maine System, the Maine Community College System, the Maine Maritime Academy, and to employees of counties, municipalities and special districts, including public school teachers.

## Interfund Transactions

Due to Other Funds are amounts owed by one State fund to another for goods sold or services rendered. Due from Other Funds are amounts to be received from one State fund by another for goods sold or services rendered. The following is a summary of amounts due from other funds and due to other funds as of June 30, 2012:

<b>Interfund Receivables</b>					
(Expressed in Thousands)					
	<b>Due to Other Funds</b>				
				<b>Other Special</b>	<b>Other</b>
<b><u>Due from Other Funds</u></b>	<b><u>General</u></b>	<b><u>Highway</u></b>	<b><u>Federal</u></b>	<b><u>Revenue</u></b>	<b><u>Governmental</u></b>
General	\$ -	\$ -	\$ 1,348	\$ -	\$ -
Highway	1	1	7,171	-	-
Federal	16	1	106	1,292	-
Other Special Revenue	119,924	85	143	140	19
Other Governmental	214	-	-	-	-
Employment Security	-	-	24	-	-
Non-Major Enterprise	143	124	1	2	-
Internal Service	8,592	2,969	3,632	3,249	-
Fiduciary	30,195	-	-	-	-
<b>Total</b>	<b>\$ 159,085</b>	<b>\$ 3,180</b>	<b>\$ 12,425</b>	<b>\$ 4,683</b>	<b>\$ 19</b>
	<b><u>Employment</u></b>	<b><u>Non-Major</u></b>	<b><u>Internal</u></b>		
<b><u>Due from Other Funds</u></b>	<b><u>Security</u></b>	<b><u>Enterprise</u></b>	<b><u>Service</u></b>	<b><u>Fiduciary</u></b>	<b><u>Total</u></b>
General	\$ -	\$ 4,989	\$ 5,479	\$ 2,647	\$ 14,463
Highway	-	-	-	-	7,173
Federal	-	-	-	-	1,415
Other Special Revenue	-	9	30	-	120,350
Other Governmental	-	-	-	-	214
Employment Security	-	-	-	-	24
Non-Major Enterprise	-	-	-	-	270
Internal Service	-	241	777	8	19,468
Fiduciary	-	-	-	-	30,195
<b>Total</b>	<b>\$ -</b>	<b>\$ 5,239</b>	<b>\$ 6,286</b>	<b>\$ 2,655</b>	<b>\$ 193,572</b>

Advances to or from other funds are for long-term loans made by one fund to another. Advances from the General Fund are for inventory of the Postal, Printing and Supply Fund. The following is a summary of interfund advances as of June 30, 2012:

**Schedule of Advances to or from Other Funds  
June 30, 2012**

(Dollars in Thousands)

<u><b>Fund Type</b></u>	<u><b>Working Capital Receivable</b></u>	<u><b>Working Capital Payable</b></u>
General	\$ 111	\$ -
Other Special Revenue	-	-
Internal Service	<u>-</u>	<u>111</u>
Total All Funds	<u>\$ 111</u>	<u>\$ 111</u>

**REVENUES OF THE STATE**

**General**

In order to fund its programs and services, the State collects a variety of taxes and receives revenues from other non-tax sources, including the federal government and various fees, fines, reimbursements, interest earnings and transfers from non-budgetary sources. For additional information concerning revenues of the State, see Exhibits B and C.

General Fund revenue collections for the month of April 2013 were over budget by \$63.9 million or 17.5%. Revenues for the ten month period ending April 2013 totaled \$ 2,349.0 million and were over budget by \$58.8 million or 2.57%. Compared to the same period last fiscal year, General Fund revenues are up \$ 57.2 million or 15.4%. Individual Income Tax was over budget for the month by \$58.4 million or 27.7% and was over budget year-to-date through April 2013 by \$96.5 million or 8.5%. Sales and Service Provider Taxes, combined, were under budget for the month by \$4.2 million or (-5.16%), and \$22.7 million or (-2.8%) under budget year-to-date. Corporate Tax revenues were over budget for the month by \$814 thousand or 3.0%, and \$12.4 million or (-8.6%) under budget year-to-date. Estate Taxes were over budget by \$617 thousand or 17.2% for the month and \$2.9 million or (-6.8%) under budget for the year-to-date. Cigarette and Tobacco Taxes were \$75 thousand or (-.7%) under budget for the month, and under budget by \$118 thousand or (-.1%) for the year-to-date. Insurance Companies Tax was over budget by \$1.0 million or 8.7% for the month and under budget by \$ 496 thousand or (-1.19%) for the year-to-date. Fines, Forfeits and Penalties were \$213 thousand or 12.5% over budget for the month, and \$157 thousand or (-.79%) under budget for the year. Lottery income was over budget by \$261 thousand or 6.5% for the month, and over budget by \$75.2 thousand or .17% for the year. Transfers for Tax Relief were over budget by \$257 thousand or 28.4% for the month, and \$546 thousand or (-.50%) under budget for the year-to-date. Other Taxes and Fees were over budget by \$4.3 million or 45.2% for the month, and were under budget by \$771 thousand or (-.67%) for the year-to-date. "Other Revenues" were over budget for the month by \$1.4 million or 12.5%, and over budget by \$1.9 million or 7.9% for the year-to-date.

As previously described in this Information Statement, the Revenue Forecasting Committee in December 2010 increased the budgeted revenue for fiscal year 2011 by \$111.6 million or 4.7%. The Legislature in February 2011 enacted 2011 Chapter 1 which decreased General Fund budgeted revenues by \$1.5 million for fiscal year 2011. The Committee in April 2011 increased General Fund budgeted revenues by \$12.1 million or 5.1% for fiscal year 2011. The following tables for fiscal years 2011, 2012

and 2013 reflect the updated budgeted revenue re-projections after the December 2008, the December 2010, the April 2011, the April 2012, the December 2012 and the May 2013 Revenue Forecasting Committee meetings and to reflect the impact of initiatives authorized in 2011 Chapter 567 and in 2013 Chapter 1. See “State Budgets” above.

<b>CATEGORY</b>	<b>Fiscal year 2011 baseline budget December 2008 RFC</b>	<b>Fiscal year 2011 budget through 124th 2nd regular Session, June 2010 incl. Dec 2010 RFC revisions</b>	<b>Fiscal year 2011 budget revised by RFC in April 2011</b>
Sales and Use Tax	\$1,046,074,023	\$904,850,262	\$916,746,307
Service Provider Tax	57,814,486	57,814,486	55,214,486
Individual Income Tax	1,523,843,260	1,370,120,000	1,392,702,302
Corporate Income Tax	179,553,010	200,490,112	193,182,264
Cigarette and Tobacco Tax	147,435,703	146,209,555	146,209,555
Insurance Companies Tax	71,990,000	76,765,000	76,765,000
Estate Tax	3,083,156	42,978,079	45,052,787
Fines, Forfeits and Penalties	43,592,953	31,133,161	28,799,339
Income from Investments	43,581	27,332	245,127
Transfer from Lottery Commission	52,534,250	52,034,250	49,034,250
Transfers for Tax Relief Programs	(138,409,003)	(112,087,945)	(113,986,593)
Transfer to Municipal Revenue Sharing	(140,080,816)	(93,088,096)	(91,930,345)
Other Taxes and Fees	137,990,415	149,003,882	149,672,089
Other Revenues	30,811,517	59,224,977	48,357,956
<b>Total Undedicated Revenues</b>	<b><u>\$3,016,276,535</u></b>	<b><u>\$2,885,475,055</u></b>	<b><u>\$2,896,064,524</u></b>

<b>CATEGORY</b>	<b>Fiscal year 2012 baseline budget December 2008 RFC</b>	<b>Fiscal year 2012 budget revised by RFC in April 2012</b>	<b>Fiscal year 2012 budget through 125th 2nd regular Session</b>
Sales and Use Tax	\$1,085,745,854	\$ 958,785,125	\$ 973,220,397
Service Provider Tax	59,555,680	51,750,707	50,366,313
Individual Income Tax	1,579,083,000	1,444,897,209	1,444,897,209
Corporate Income Tax	182,393,700	196,761,231	218,610,460
Cigarette and Tobacco Tax	145,397,809	142,123,350	142,123,350
Insurance Companies Tax	71,990,000	76,215,000	79,215,000
Estate Tax	0	38,260,185	38,260,185
Fines, Forfeits and Penalties	43,592,953	25,024,504	25,754,504
Income from Investments	43,581	106,808	106,808
Transfer from Lottery Commission	52,534,250	50,700,000	50,700,000
Transfers for Tax Relief Programs	(140,560,977)	(114,068,263)	(114,418,263)
Transfer to Municipal Revenue Sharing	(145,470,604)	(95,047,787)	(96,854,740)
Other Taxes and Fees	140,408,915	131,792,552	132,077,778
Other Revenues	32,350,266	44,054,972	51,390,200
<b>Total Undedicated Revenues</b>	<b><u>\$3,107,064,427</u></b>	<b><u>\$2,951,355,593</u></b>	<b><u>\$2,995,449,201</u></b>

CATEGORY	Fiscal year 2013 baseline budget December 2008 RFC	Fiscal year 2013 budget through the 126 <sup>th</sup> 1 <sup>st</sup> Regular	Fiscal year 2013 revised by the May 2013
Sales and Use Tax	\$1,127,405,489	\$1,006,986,404	\$ 984,910,746
Service Provider Tax	61,840,807	53,586,812	48,739,710
Individual Income Tax	1,621,165,000	1,413,890,000	1,495,000,000
Corporate Income Tax	183,670,455	186,021,732	171,021,732
Cigarette and Tobacco Tax	143,392,221	138,180,000	138,180,000
Insurance Companies Tax	71,990,000	80,715,000	80,715,000
Estate Tax		64,878,175	70,230,328
Fines, Forfeits and Penalties	43,592,953	24,452,139	24,552,639
Income from Investments	43,581	66,082	83,883
Transfer from Lottery Commission	52,534,250	52,550,000	52,550,000
Transfer for Tax Relief Programs	(139,734,150)	(112,086,562)	(112,086,562)
Transfer to Municipal Revenue Sharing	(150,191,517)	(93,076,067)	(95,086,810)
Other Taxes and Fees	142,602,960	151,399,353	150,894,327
Other Revenues	31,693,401	40,219,187	41,600,064
<b>Total Undedicated Revenues</b>	<b><u>\$3,190,005,450</u></b>	<b><u>\$3,007,782,255</u></b>	<b><u>\$3,051,305,057</u></b>

## Certain State Taxes

**Individual Income Tax.** The State assesses individual income taxes at progressive rates from 2% to 8.5%, based on classifications or brackets of taxable income, depending upon filing status and after specified deductions and exemptions. Taxable income of resident individuals is derived from federal adjusted gross income. The dollar amounts of the tax rate tables are indexed for inflation. For tax year 2012, the maximum rate applies to Maine taxable income of \$40,700 or greater for married persons filing joint returns (\$20,350 for single individuals and married persons filing separate returns and \$30,500 for individuals filing as heads of households). A resident individual is allowed \$2,850 for each exemption to which the individual is entitled for the tax year for federal income tax purposes. For resident taxpayers not itemizing deductions, the standard deduction is the same as the federal standard deduction of the taxpayer, which is also indexed at the federal level. Nonresident Maine taxpayers are taxed in a similar fashion, but they are allowed a credit for their non-Maine sourced income. Starting with tax year 2013 the top marginal tax rate is reduced to 7.95% and the 2% rate reduced to 0%. The infra-marginal tax rates of 4.5% and 7% are combined into a single rate of 6.5%. The personal exemption is now equal to the federal personal exemption amount; \$3,900 for tax year 2013.

**Sales and Use Taxes.** A sales tax is imposed on the value of all tangible personal property and taxable services sold at retail in the State. The rate of tax is 7% on the value of liquor sold in licensed establishments, 7% on the value of rental of living quarters in any hotel, rooming house, tourist or trailer camp, 10% on the value of rental for a period of less than one year of an automobile, 7% on the value of prepared food, and 5% on the value of all other tangible personal property and taxable services.

A use tax is imposed at the rates provided for sales taxes, on the storage, use or other consumption in the State of tangible personal property or a service, the sale of which would be subject to sales tax.

No sales or use tax is imposed on sales, storage or use of certain tangible personal property. Some of the major exemptions are grocery staples (which do not include liquor, and prepared food); prescription medicines; certain products used in agricultural and aqua cultural production; certain motor fuels; coal, oil, wood and all other fuels, except electricity, when bought for cooking and heating in residential units; the first 750 kilowatt hours of residential electricity per month; fuel oil or coal, the by-products from the burning of which become an ingredient or component part of tangible personal property for later sale; packaging materials; certain periodicals; sales to incorporated hospitals, licensed and incorporated non-profit nursing homes, licensed and incorporated non-profit boarding care facilities, medical research facilities, schools, regularly organized churches and similar institutions; water pollution and air pollution control facilities certified by the State Commissioner of Environmental Protection; and ninety-five percent (95%) of the sale price of all fuel and electricity purchased for use at a manufacturing facility.

**Corporate Income Tax.** An income tax is imposed upon the Maine net income of taxable corporations at progressive rates from 3.5% on Maine net income not over \$25,000 to 8.93% on Maine net income in excess of \$250,000. The tax computed using Maine net income is then apportioned to Maine. Maine net income is derived from taxable income of the taxpayer under the laws of the United States, adjusted by certain modifications, including additions for certain tax deductions, certain net operating losses and certain depreciation deductions, and subtractions for income exempt by law from taxation by the State, certain apportionable dividend income and certain net operating losses.

**Certain Motor Fuel Taxes.** An excise tax is imposed at the rate of \$0.300 per gallon on internal combustion engine fuel (gasoline) sold or used within the State. An excise tax is imposed on all suppliers of special fuel sold and on all users of special fuel used in the State at the rate of \$0.312 per gallon of distillate. Low-energy fuel such as liquefied natural gas, propane, methane and butane is taxed at a rate based on the energy content of each fuel as compared to gasoline. Special fuels include all combustible gases and liquids used in an internal combustion engine, except fuel subject to the gasoline tax. Since 2003, motor fuel tax rates have been subject to indexing annually. Indexing of motor fuel excise tax rates was repealed effective July 1, 2013.

**Estate Tax.** 2011 Chapter 380 reformed the estate tax with respect to decedents dying after December 31, 2012. The exclusion amount increases from \$1,000,000 to \$2,000,000. Also beginning in 2013, a progressive rate structure applies: 8% on estate value of more than \$2,000,000 but less than or equal to \$5,000,000; 10% on estate value of more than \$5,000,000 but less than or equal to \$8,000,000; 12% on estate value of more than \$8,000,000.

Pursuant to the Constitution of the State, all revenues derived from fees, excises and license taxes relating to registration, operation and use of vehicles on public highways, and to fuels used for propulsion of such vehicles shall be expended solely for the cost of administration, state enforcement of traffic laws, statutory refunds and adjustments, and the cost of construction, reconstruction, maintenance and repair of public highways and bridges and for the payment of interest and principal on bonds issued for, and the payment of obligations incurred in, the construction and reconstruction of highways and bridges. Such funds may not be diverted for any other purpose.

**Tax Reform Proposal.** A bipartisan group of legislators has proposed LD 1496, “An Act to Modernize and Simplify the Tax Code,” a tax reform bill that proposes to increase consumption taxes by: (1) eliminating most sales tax exemptions and exclusions, (2) raising the general sales tax by 1 percentage point (more for lodging and auto rentals), and (3) increasing excise taxes on liquor, cigarette and tobacco products. The individual income tax rates and brackets would be eliminated and replaced with a flat 4% tax on Maine Adjusted Gross Income. Current deductions and exemptions would be

eliminated and replaced with two refundable credits that offset the impact of the expanded consumption taxes on low and middle income households and property taxes on homestead property. The bill further proposes to eliminate the estate tax, increase the current \$10,000 Homestead Exemption to \$50,000, retain some municipal revenue-sharing, and lower the corporate income tax rate to 7.5%. A public hearing was held on May 10, 2013 to discuss the proposal, but the bill has not been acted upon by the Legislature.

### **Tobacco Master Settlement Agreement**

The State entered into the tobacco master settlement agreement (the “Settlement Agreement”) on November 23, 1998 with certain tobacco manufacturers to settle a suit the State brought against those tobacco manufacturers. The State is one of forty-six states and five U.S. territories (the “Settling States”) that executed the Settlement Agreement with the manufacturers. The lawsuit included a variety of claims, including claims to recover smoking related Medicaid costs (the “Claims”). Pursuant to the Settlement Agreement, the manufacturers who have joined the Settlement Agreement (“Participating Manufacturers”) have agreed to make certain annual payments that are allocated among all the Settling States.

Certain initial and annual payments by the Participating Manufacturers that were allocated to the State pursuant to the Settlement Agreement commenced December 1999. The initial payments ended in 2003 and the annual payments are expected to continue in perpetuity.

The State expects to expend the annual payments received from the Participating Manufacturers for smoking prevention, cessation and control activities, prenatal and young children’s care, child care for children up to 15 years of age, health care for children and adults, prescription drugs for adults who are elderly or disabled, dental and oral health care to low-income persons who lack adequate dental coverage, substance abuse prevention and treatment and comprehensive school health programs, pursuant to 22 MRSA §1511(6).

In addition, certain payments (the “Strategic Contribution Payments”) to be made by the Participating Manufacturers and allocated among certain Settling States in recognition of strategic contributions made by specific Settling States, including Maine, to the negotiation of the Settlement Agreement were established pursuant to the Settlement Agreement. The Strategic Contribution Payments began in 2008 and will be made annually ending in 2017.

Annual payments received by the State pursuant to the Settlement Agreement have ranged from approximately \$63,000,000 in fiscal year 2000 to approximately \$46,000,000 in fiscal year 2005. The State received \$50,986,668 in fiscal year 2013 pursuant to the Settlement Agreement.

Pursuant to the Settlement Agreement, Participating Manufacturers may dispute annual payment amounts. Participating Manufacturers have disputed certain amounts of each year’s payment since 2003. The predominant dispute, though not the only dispute, is that certain Participating Manufacturers have claimed that they are entitled to a downward adjustment in the amount they owe because of loss of market share to non-participating manufacturers. If the Participating Manufacturers prevail on this claim against the State, the amount the State is entitled to for each disputed year would decrease. The State is pursuing arbitration, pursuant to the Settlement Agreement, to obtain a determination that it diligently enforced its “qualifying statute,” in keeping with the terms of the Settlement Agreement, and that accordingly Maine is entitled to the full amount of its annual payment without a reduction for the market share loss to non-participating manufacturers. Other Settling States are pursuing similar arbitration seeking a determination of the amount to which they are entitled for previous years’ tobacco settlement payments to their states.

## **State Investment Pool**

As described above under the heading “Governmental Organization – Executive Branch – Treasurer of State,” when there is money in the State Treasury that is not needed to meet current obligations, the Treasurer of State may, with the concurrence of the State Controller or the Commissioner of Administrative and Financial Services and with the consent of the Governor, invest those amounts in certain instruments authorized by State law. The Treasurer of State maintains the records of the investments of the State through the State investment pool. The average daily balance of the State investment pool was \$529,048,977 in fiscal year 2012. The balance of the State investment pool as of April 30, 2013 was approximately \$607,000,000.

Collateralized bank accounts, repurchase agreements and certificates of deposit collateralized by U.S. Treasuries and Agencies and direct holdings in U.S. Treasuries make up the cash pool portfolio. On April 30, 2013, the weighted average final maturity of the pool was 219 days.

## **CERTAIN PUBLIC INSTRUMENTALITIES**

### **Maine Governmental Facilities Authority**

The Maine Governmental Facilities Authority (“MGFA”) is authorized to assist in financing the acquisition, construction, improvement, reconstruction or equipping of, or construction of an addition or additions to, structures designed for use as court facilities or state offices and the acquisition, construction, improvement, reconstruction or repair of equipment or other personal property, all of which are rented to agencies of the State. MGFA was created in 1987 and was known as the Maine Court Facilities Authority until 1997 when its name was changed and its purposes were broadened. Under current statutory limits, the MGFA may not issue securities in excess of \$325,485,000 outstanding at any one time except for the issuance of revenue refunding securities authorized by the Act and provided that no less than \$136,000,000 shall be allocated to court facilities and provided further that no less than \$85,000,000 shall be allocated to correctional facilities, no less than \$33,000,000 shall be allocated to a psychiatric facility in Augusta, and no less than \$33,485,000 shall be allocated to capital repairs and improvements at various state facilities. No securities may be issued without the prior approval of the Legislature. Neither the full faith and credit nor the taxing power of the State or of any political subdivision of the State is pledged to the payment of the principal of, redemption premium, if any, or interest on MGFA’s bonds. MGFA has no taxing power. As of March 31, 2013, the aggregate principal amount of MGFA’s bonds outstanding was \$169,620,000. The State has agreed, subject to appropriation, to make rental payments to be applied to payment of MGFA’s bonds. Debt service on MGFA’s bonds for the State fiscal year ending June 30, 2013 is \$25,966,775.

### **Finance Authority of Maine**

The Finance Authority of Maine (“FAME”) was created in 1983 to undertake various economic development finance programs and to assume the responsibilities of several smaller state authorities. FAME is currently authorized to insure repayment of commercial loans and to require the State to fund its insurance obligations, from proceeds of bonds of the State or from other sources, provided that insurance obligations and bonds of the State issued to fund insurance obligations shall not exceed in the aggregate at any one time outstanding the principal amount of \$90,000,000 plus an additional \$4,000,000 with respect to loans for eligible veterans. As of March 31, 2013, amounts outstanding pursuant to these authorizations were \$66,558,000 and \$730,000 respectively. See “Fiscal Management - Constitutional Debt Limit” herein. Since the creation of FAME in 1983, the Treasurer of State has not been asked to issue bonds of the State to pay off defaulted loans insured by FAME pursuant to these authorizations.

In 1990, FAME was authorized to provide certain student financial assistance services, including continuation of a student loan insurance program meeting certain federal requirements in order to secure loans to students attending institutions of higher education. Pursuant to this authorization, FAME has entered into agreements with the United States Secretary of Education relating to federal, state and private programs of low-interest insured loans to students in institutions of higher education. The Constitution allows the Legislature to authorize the issuance of bonds in the amount of up to \$4,000,000 to secure funds for loans to Maine students attending institutions of higher education. As of March 31, 2013, the student loan insurance obligations of FAME were \$629,494,000. See “Fiscal Management - Constitutional Debt Limit” herein. Since 1977, the Treasurer of State has not been asked to issue bonds of the State to pay off defaulted loans insured pursuant to the bond issuance authorization set forth in the Constitution.

In addition, FAME may issue bonds and other obligations which shall not be a debt or liability of any municipality, the State or any political subdivision thereof. The statutes governing FAME include Capital Reserve Provisions. As of March 31, 2013, the aggregate principal amount outstanding of FAME’s obligations undertaken pursuant to its Capital Reserve Provisions was \$12,405,000 for waste motor oil disposal site remediation projects and \$23,873,000 for other projects. The State has not been asked to restore FAME’s Capital Reserve since the inception of its Capital Reserve Provision. See “Governmental Organization - Independent Authorities and Agencies” herein.

### **Maine State Housing Authority**

The Maine State Housing Authority (“MSHA”) was created in 1969 to undertake various programs related to housing. The bonds and other obligations of MSHA shall not be a debt of any municipality, the State or any political subdivision thereof and neither the State nor any municipality nor any political subdivision thereof shall be liable thereon. As of March 31, 2013, MSHA had \$1,291,480,000 of housing bonds outstanding which require a capital reserve. The statutes governing MSHA include Capital Reserve Provisions. The State has not been asked to restore MSHA’s Capital Reserves since the inception of its Capital Reserve Provisions. See “Governmental Organization - Independent Authorities and Agencies” herein. MSHA also has \$46,890,000 of Maine Energy, Housing and Economic Recovery Bonds for a grand total of \$1,338,370,000 outstanding.

MSHA is also authorized to insure repayment of mortgage loans on Indian housing and to require the State to fund these insurance obligations, from proceeds of bonds of the State or from other sources, provided that insurance obligations shall not exceed in the aggregate at any one time outstanding the principal amount of \$1,000,000. As of March 31, 2013, MSHA’s Indian housing mortgage insurance obligations were approximately \$396,000. See “Fiscal Management – Constitutional Debt Limit” herein.

### **Maine Municipal Bond Bank**

The Maine Municipal Bond Bank (“MMBB”) was created in 1972 to lend money to counties, cities, towns, school administrative districts, community school districts, and quasi-municipal corporations to finance certain capital expenditures (the “Original Program”). Bonds and notes issued by the MMBB shall not be in any way a debt or liability of the State and shall not create any debt or debts, liability or liabilities, on behalf of the State or be or constitute a pledge of the full faith and credit of the State. As of March 31, 2013, the aggregate principal amount of the MMBB’s bonds outstanding was \$1,437,856,142 of which (a) \$31,785,000 is attributable to loans to certain municipalities to assist in financing certain wastewater and drinking water treatment facilities pursuant to a revolving loan fund program, (b) \$94,825,000 is attributable to certain grant anticipation bonds payable solely from annual federal highway grants to the State, (c) \$208,925,000 is attributable to certain transportation revenue

bonds payable solely from certain State revenues, (d) \$31,696,142 is for Qualified School Construction Bonds and (e) substantially all of the balance is attributable to the Original Program. The statutes governing the MMBB include Capital Reserve Provisions. The State has not been asked to restore the MMBB's Capital Reserves since the inception of its Capital Reserve Provisions. See "Governmental Organization – Independent Authorities and Agencies" herein.

### **Maine Health and Higher Educational Facilities Authority**

The Maine Health and Higher Educational Facilities Authority ("MHHEFA") was created in 1971 to provide the means to expand, enlarge and establish health care, hospital, nursing home and other related facilities and to assist institutions of higher education in the State to provide facilities and structures. Bonds and notes issued by MHHEFA do not constitute or create any debt or debts, liability or liabilities, on behalf of the State or any political subdivision thereof other than MHHEFA or a loan of credit of the State or a pledge of the faith and credit of the State or of any political subdivision other than MHHEFA. As of March 31, 2013, the aggregate principal amount of MHHEFA's bonds outstanding was \$1,204,205,000. The statutes governing MHHEFA include a Capital Reserve Provision. The State has not been asked to restore MHHEFA's Capital Reserve since the inception of its Capital Reserve Provision. See "Governmental Organization - Independent Authorities and Agencies" herein.

### **Maine Educational Loan Authority**

The Maine Educational Loan Authority ("MELA") was established in 1988 to carry out programs making financial and other assistance available to students and their parents to finance costs of attendance at institutions of higher education. Bonds of MELA do not constitute or create any debt or debts, liability or liabilities, on behalf of the State or of any political subdivision of the State, other than MELA, or a loan of the credit of the State or a pledge of the faith and credit of the State or of any political subdivision, other than MELA. As of March 31, 2013, the aggregate principal amount of MELA's bonds outstanding was \$146,450,000. The statutes governing MELA include a Capital Reserve Provision. The State has not been asked to restore MELA's Capital Reserve since the inception of its Capital Reserve Provision. See "Governmental Organization - Independent Authorities and Agencies" herein.

### **Loring Development Authority**

Loring Development Authority ("LDA") was established in 1993 to acquire and manage the former Loring Air Force Base in northern Maine. Bonds of LDA are payable solely from the income, proceeds, revenues and funds of LDA and do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction. As of March 31, 2013, LDA had not issued any bonds. The statutes governing LDA include a Capital Reserve Provision. See "Governmental Organization - Independent Authorities and Agencies" herein.

### **University of Maine System**

The University of Maine System (the "University System") includes the University of Maine, established in 1865, and all other public institutions of higher education in Maine, except the Maine Maritime Academy and the seven colleges of the Maine Community College System. Money borrowed by the University System and evidences of indebtedness issued by the University System do not constitute any debt or liability of the State or of any municipality or political subdivision of the State, but shall be payable solely from the revenues of the University System or any project for which they are issued. As of March 31, 2013, the aggregate principal amount of the University System's bonds outstanding was \$176,010,000.

## **Maine Turnpike Authority**

The Maine Turnpike Authority (“MTA”) was created in 1941 and has constructed and operates and maintains a turnpike approximately 109 miles long between York and Augusta. Bonds issued by MTA shall not be deemed to be a debt of the State, but such bonds shall be payable exclusively from tolls. The bonds shall not directly or indirectly or contingently obligate the State to levy or pledge any form of taxation whatever therefor or to make any appropriation for the payment thereof. As of March 31, 2013, the aggregate principal amount of MTA’s bonds outstanding was \$438,695,000.

## **Maine Public Utility Financing Bank**

The Maine Public Utility Financing Bank (“MPUFB”) was created in 1981 to lend money to public utilities in the State. Bonds and notes issued by MPUFB do not constitute a debt or liability of the State or of any municipality therein or any political subdivision thereof, or a pledge of the faith and credit of the State or of any such municipality or political subdivision. As of March 31, 2013, the aggregate principal amount of MPUFB’s bonds outstanding was \$22,600,000.

## **Maine Port Authority**

The Maine Port Authority (“MPA”) was established in 1945 and is authorized to acquire, construct and operate any kind of port terminal facility within the State and to acquire and construct any railroad facility within the State. Bonds of MPA do not constitute a debt of the State, or of any agency or political subdivision thereof, but are payable solely from the revenues of MPA, and neither the faith nor credit nor taxing power of the State, or any political subdivision thereof, is pledged to the payment of MPA’s bonds. As of March 31, 2013, there were no outstanding bonds of MPA.

## **LITIGATION**

The State is a party to numerous lawsuits. Such lawsuits include actions to recover monetary damages from the State, disputes over individual or corporate income taxes, disputes over sales or use taxes, and actions to alter the regulations or administrative practices of the State in such manner as to cause additional costs to the State. The State is not aware of any pending or threatened litigation or claim against the State, the outcome of which will have a material adverse effect on the financial condition of the State. The matters set forth under the heading “Primary Government – Litigation” in Note 15 Commitments and Contingencies to the Financial Statements attached as Exhibit B hereto should be noted.

The Maine Association of Retirees, now joined by the Maine State Employees Association, the Maine Education Association and the Maine State Troopers Association, sued the Board of Trustees of the Maine Public Employees Retirement System in federal court challenging the constitutionality of legislation that changes the cost of living adjustments (“COLA”) for retirees. The Plaintiffs seek to have that portion of the legislation that reduces the COLA, determined null and void. No damages are sought, but attorney fees and costs are requested. If the Plaintiffs prevail on all counts, the State will have to make provision to retroactively reinstate COLA payments to the prior level. Such provision may have an impact on the System’s unfunded actuarial liability. To avoid an appearance of conflict, the Office of the Attorney General has contracted outside counsel to defend the Board. Current federal case law is such that predicting the outcome of this case cannot be done with any degree of accuracy. More details regarding the challenged legislation and the pending lawsuit can be found at in the section “Recent Legislative Changes Affecting Benefits Levels”.

In fiscal year 2011, the Legislature enacted certain changes to the State's retirement plan and related benefits. One of the changes requires State employees who retire prior to their normal retirement age to pay 100% of their retiree health insurance premiums until they reach normal retirement age. A claimant has alleged that the requirement to pay 100% of the retiree health insurance premium discriminates on the basis of age. The claim is in the early stages of administrative process and limited facts are available. If a court were to conclude that the statute is discriminatory, the State may have to reestablish funding for early retiree health insurance premiums in its budget. It is uncertain whether this claim may affect other possible claimants or benefits. Accordingly, the probability and extent of the budgetary impact, if any, are unknown.

In *IMS Health v. Schneider*, plaintiffs have prevailed on the merits in a lawsuit that challenged the constitutionality of a Maine statute. Plaintiffs now seek \$1.2 million in attorney fees. The probability is high that the federal court will award some attorney fees, but it is low that those fees will be over \$1 million.

There is pending arbitration regarding the "diligent enforcement" of the 1998 Tobacco Settlement Agreement, by which 46 states and territories settled their claims against major tobacco companies in return for annual payments of funds in perpetuity. This matter does not contemplate a "liability" of the State, but it may result in substantial loss of revenue. The Agreement required the states to "diligently enforce" certain tobacco laws against tobacco companies that did not enter into the Agreement. If the states or some of them did not "diligently enforce" those laws, the settling tobacco companies could seek to decrease the amounts they paid through binding arbitration. The settling companies have filed such an arbitration for the year 2003, and they are contesting Maine's efforts. If Maine loses the arbitration, the future payments to Maine would be diminished by as much as \$48.4 million (the amount Maine received in 2003). As this matter is extraordinarily novel and without precedent, it is not possible to gauge the probability of success. The earliest any decision would issue is June 2013. For more details regarding the Settlement Agreement and this dispute, see the section "Tobacco Master Settlement Agreement".

Another matter may result in reduction of future payments to Maine. The dispute involves whether Maine, as part of its Temporary Assistance for Needy Families Program (TANF), met its two-parent work participation rate for the federal fiscal year 2007. The U.S. Department of Health and Human Services has assessed a penalty against Maine of just over \$1 million. That penalty is now in abeyance pending the State's execution of a corrective action plan, which may result in abatement of the penalty. It is unclear whether Maine will realize this loss, which will result in that amount being deducted from future federal payments for the TANF program in Maine.

The U. S. Department of Agriculture, Food and Nutrition Service ("FNS") is seeking to recoup overpayments by the Maine Department of Health and Human Services ("DHHS") to recipients of food supplement benefits in the amount of \$2.8 million. FNS has asserted that DHHS may not recoup these overpayments from recipients. The matter is presently before an administrative hearing officer within the Department of Agriculture. The State will contest the recoupment and may appeal to U. S. District Court in the event of an adverse ruling by the hearing officer.

In *John F. Murphy Homes, Inc. v. Office of Attorney General*, a provider of Maine Care services is claiming that the State failed to pay it \$7.5 million for services it provided between 2001 and 2011. It also claims that the State has improperly received \$15.7 million in federal payments for these services. This litigation is at its earliest stages and, therefore, its outcome is uncertain at this time.

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# STATE OF MAINE

## EXHIBIT B

### **Selected Financial Information Pertaining to the State of Maine for Fiscal Years 2008 through 2012**

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No representation is made hereby that the information set forth in Section II of Exhibit B has been prepared in full conformity with generally accepted accounting principles.



## STATE OF MAINE DEPARTMENT OF AUDIT

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### INDEPENDENT AUDITOR'S REPORT

To the President of the Senate and the  
Speaker of the House of Representatives

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of and for the year ended June 30, 2012, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Maine's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following component units: Child Development Services, ConnectME Authority, Efficiency Maine Trust, Finance Authority of Maine, Loring Development Authority, Maine Community College System, Maine Educational Center for the Deaf and Hard of Hearing, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities Authority, Maine Maritime Academy, Maine Municipal Bond Bank, Maine Port Authority, Maine Public Employees Retirement System, Maine State Housing Authority, Maine Technology Institute, Maine Turnpike Authority, Midcoast Regional Redevelopment Authority, Northern New England Passenger Rail Authority, Small Enterprise Growth Fund, and University of Maine System. We also did not audit the financial statements of the NextGen College Investing Plan. These financial statements reflect the following percentages of total assets and net assets or fund balance of the indicated opinion unit:

<u>Opinion Unit</u>	<u>Percent of Opinion Unit's Total Assets</u>	<u>Percent of Opinion Unit's Net Assets/Fund Balance</u>
Aggregate Discretely Presented Component Units	100%	100%
Aggregate Remaining Fund Information	94%	96%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us and our opinions, insofar as they relate to the amounts included for these entities, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Maine Educational Loan Authority, Maine Technology Institute, Northern New England Passenger Rail Authority and the Small Enterprise Growth Fund were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as

evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, a report on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters will be issued under separate cover. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

The Management's Discussion and Analysis on pages 4 through 15, and budgetary comparison schedules and related notes, State Retirement Plan and Other Post-Employment Benefits Plans, Information About Infrastructure Assets Reported Using the Modified Approach, included on pages 108 through 119 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Maine's basic financial statements. The introductory section, the supplementary information – combining statements and individual fund statements and schedules, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information - combining statements and individual fund statements and schedules on pages 122 through 175 has been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section on pages ii through xiii and the statistical section on pages 179 through 211 have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

A handwritten signature in black ink, reading "Neria R. Douglass". The signature is fluid and cursive, with the first name "Neria" being more prominent and the last name "Douglass" following in a similar style.

Neria R. Douglass, JD, CIA  
State Auditor  
December 21, 2012

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the State of Maine's annual financial report presents the State's discussion and analysis of financial performance during the year ended June 30, 2012. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

#### Government-wide:

- The State's net assets increased by 1.8 percent from the previous fiscal year. Net assets of Governmental Activities increased by \$74.3 million, while net assets of Business-type Activities increased by \$9.1 million. The State's assets exceeded its liabilities by \$4.7 billion at the close of fiscal year 2012. Component units reported net assets of \$2.7 billion, an increase of \$254.6 million (10.3 percent) from the previous year.

#### Fund level:

- At the end of the fiscal year, the State's governmental funds reported combined ending fund balances of \$244.4 million, a decrease of \$80.1 million from the previous year. The General Fund's total fund balance was a negative \$349.9 million, a decline of \$113.6 million from the previous year. The Highway Fund total fund balance was \$36.1 million, an improvement of \$4.3 million from the prior year.
- The proprietary funds reported net assets at year end of \$632.3 million, a decrease of \$2.3 million from the previous year. This decrease is due to several factors: an increase in the Alcoholic Beverages Fund of \$12.5 million, an increase in the Statewide Radio & Network Systems Fund of \$5.7 million, offset by a decrease in the Retiree Health Insurance Fund of \$6.1 million and a decrease in the Transportation Facilities Fund of \$7.4 million.

#### Long-term Debt:

- The State's liability for general obligation bonds decreased by \$48.1 million during the fiscal year, which represents the difference between new issuances and payments of outstanding debt. During the year, the State issued \$49.3 million in bonds and made principal payments of \$97.4 million.

Additional information regarding the government-wide, fund level, and long-term debt activities can be found beginning on page 7.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the State of Maine's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

#### Change in Accounting Principles

Governmental Accounting Standards Board (GASB) Statement No. 18, Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs became effective for the State for the year ended June 30, 2012 when the State acquired and became responsible for the closure and postclosure monitoring costs of the Dolby Landfills. This Statement established accounting and financial reporting for municipal solid waste landfill (MSWLF) closure and postclosure care costs. The fiscal year 2011 Condensed Statement of Net Assets has been restated to reflect related changes for comparison purposes.

## Government-wide Statements

The government-wide statements report information about the State as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets presents all of the State's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases and decreases in net assets are an indicator of whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused leave).

Both government-wide statements report three activities:

*Governmental activities* - Most basic services, such as health & human services, education, governmental support & operations, justice & protection, and transportation are included in this category. The Legislature, Judiciary and the general operations of the Executive departments fall within the Governmental Activities. Income taxes, sales and use taxes, and State and federal grants finance most of these activities.

*Business-type activities* - The State charges fees to customers to help cover all or most of the costs of certain services it provides. Operating costs not covered by customer fees are subsidized by the General Fund. Lottery tickets, transportation services, and the State's unemployment compensation services are examples of business-type activities.

*Component units* - Although legally separate, component units are important because the State is financially accountable for these entities. The State has "blended" two component units, the Maine Governmental Facilities Authority (MGFA) and Child Development Services (CDS) with Governmental Activities as described above. Maine reports 18 other component units (7 major and 11 non-major) as discretely presented component units of the State, and one component unit is reported with the State's fiduciary funds. Complete financial statements of the individual component units may be obtained directly from their respective administrative offices as shown in Note 1 A to the financial statements.

Government-wide statements are reported utilizing an economic resources measurement focus and full accrual basis of accounting. The following summarizes the impact of the transition from modified accrual to full accrual accounting:

- Capital assets used in governmental activities are not reported on governmental fund statements but are included on government-wide statements
- Certain tax revenues that are earned, but not available, are reported as revenues in the Governmental Activities, but are reported as deferred revenue on the governmental fund statements
- Other long-term assets that are not available to pay for current period expenditures are deferred in governmental fund statements, but not deferred on the government-wide statements
- Internal service funds are reported as Governmental Activities, but reported as proprietary funds in the fund financial statements
- Governmental fund long-term liabilities, such as certificates of participation, pension obligations, compensated absences, bonds and notes payable, and others appear as liabilities only in the government-wide statements

- Capital outlay spending results in capital assets on the government-wide statements, but is recorded as expenditures on the governmental fund statements
- Proceeds from bonds, notes and other long-term financing arrangements result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements
- Net asset balances are allocated as follows:

*Net Assets Invested in Capital Assets, Net of Related Debt;* are capital assets, net of accumulated depreciation, and reduced by outstanding balances for bonds, notes, and other debt attributed to the acquisition, construction or improvement of those assets.

*Restricted Net Assets* are those with constraints placed on the use by external sources (creditors, grantors, contributors, or laws or regulations of governments) or imposed by law through constitutional provisions or enabling legislation; and

*Unrestricted Net Assets* are net assets that do not meet any of the above restrictions.

## **Fund Financial Statements**

The fund financial statements provide more detailed information about the State's most significant funds. Funds are fiscal and accounting entities with self-balancing sets of accounts that the State uses to keep track of specific revenue sources and spending for particular purposes. The State's funds are divided into three categories – governmental, proprietary, and fiduciary – and use different measurement focuses and bases of accounting.

*Governmental funds:* Most of the basic services are included in governmental funds, which generally focus on how money flows into and out of those funds and the balances left at year-end that are available for future spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the programs of the State. The governmental fund statements focus primarily on the sources, uses, and balance of current financial resources and often have a budgetary orientation. These funds are reported using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Because this information does not encompass the additional long-term focus of the government-wide statements, a separate reconciliation provides additional information that explains the relationship (or differences) between them. The governmental funds consist of the General Fund, special revenue, capital projects, and permanent funds.

*Proprietary funds:* When the State charges customers for the services it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) apply the accrual basis of accounting utilized by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. An example is the State Lottery Fund. Internal service funds report activities that provide supplies and services to the State's other programs and activities – such as the State's Postal, Printing & Supply Fund. Internal service funds are reported as Governmental Activities on the government-wide statements.

*Fiduciary funds:* The State is the trustee or fiduciary for assets that belong to others. The State is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. These funds include pension and other employee benefit trusts administered by the Maine Public Employees Retirement System, a component unit, private-purpose trusts, and agency funds. Fiduciary funds are reported using the accrual basis of accounting. The State excludes these activities from the government-wide financial statements because these assets are restricted in purpose and do not represent discretionary assets of the State to finance its operations.

## Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in both the government-wide and fund financial statements.

### Required Supplementary Information

The required supplementary information includes budgetary comparison schedules for the General Fund and major special revenue funds. Also included are notes and a reconciliation of fund balance from the budgetary basis to fund balance determined according to generally accepted accounting principles. This section also includes schedules of funding progress for certain pension and other post-employment benefit trust funds and condition and maintenance data regarding certain portions of the State's infrastructure.

### Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental, proprietary, and fiduciary funds. These funds are added together, by fund type, and presented in single columns in the basic financial statements. Budgetary comparison schedules by agency are also included for the general fund, the highway fund, federal funds, and other special revenue fund.

## FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

The State's net assets increased by 1.8 percent to \$4.7 billion at June 30, 2012, as detailed in Tables A-1 and A-2.

**Table A- 1: Condensed Statement of Net Assets**  
(Expressed in Thousands)

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>
Current and other noncurrent assets	\$ 1,911,603	\$ 1,911,307	\$ 350,609	\$ 353,854	\$ 2,262,212	\$ 2,265,161
Capital assets	5,085,498	4,862,331	152,763	146,357	5,238,261	5,008,688
<b>Total Assets</b>	<b><u>6,997,101</u></b>	<b><u>6,773,638</u></b>	<b><u>503,372</u></b>	<b><u>500,211</u></b>	<b><u>7,500,473</u></b>	<b><u>7,273,849</u></b>
Current liabilities	1,424,285	1,307,641	37,185	32,967	1,461,470	1,340,608
Long-term liabilities	1,281,137	1,248,658	17,117	27,223	1,298,254	1,275,881
<b>Total Liabilities</b>	<b><u>2,705,422</u></b>	<b><u>2,556,299</u></b>	<b><u>54,302</u></b>	<b><u>60,190</u></b>	<b><u>2,759,724</u></b>	<b><u>2,616,489</u></b>
<b>Net assets (deficit):</b>						
Invested in capital assets, net of related debt	4,408,377	4,165,760 *	152,763	146,357	4,561,140	4,312,117 *
Restricted	534,806	496,261 *	295,632	300,287	830,438	796,548 *
Unrestricted (deficit)	(651,504)	(444,682) *	675	(6,623)	(650,829)	(451,305) *
<b>Total Net Assets</b>	<b><u>\$ 4,291,679</u></b>	<b><u>\$4,217,339</u></b>	<b><u>\$ 449,070</u></b>	<b><u>\$ 440,021</u></b>	<b><u>\$ 4,740,749</u></b>	<b><u>\$4,657,360</u></b>
* As Restated						

### Changes in Net Assets

The State's fiscal year 2012 revenues totaled \$7.8 billion. (See Table A-2) Taxes and operating grants and contributions accounted for most of the State's revenue by contributing 44.5 percent and 40.6 percent,

respectively, of every dollar raised. The remainder came from charges for services and other miscellaneous sources.

The total cost of all programs and services totaled \$7.7 billion for the year 2012. (See Table A-2) These expenses are predominantly (69.5 percent) related to health & human services and education activities. The State's governmental support & operations activities accounted for 5.9 percent of total costs. Total net assets increased by \$83.4 million.

**Table A-2 - Changes in Net Assets**  
(Expressed in Thousands)

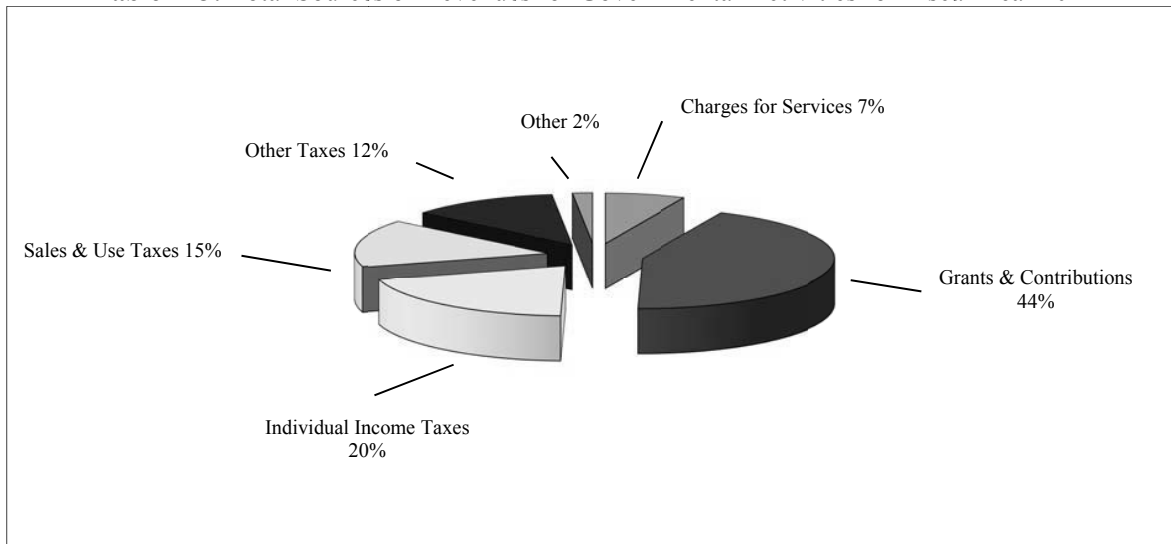
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 488,832	\$ 490,069 *	\$ 540,924	\$ 535,349	\$ 1,029,756	\$ 1,025,418 *
Operating Grants/Contributions	3,160,241	3,389,193 *	7,823	11,253	3,168,064	3,400,446 *
General Revenues:						
Taxes	3,472,588	3,435,859	-	-	3,472,588	3,435,859
Other	130,091	172,641 *	-	-	130,091	172,641 *
<b>Total Revenues</b>	<b><u>7,251,752</u></b>	<b><u>7,487,762</u></b>	<b><u>548,747</u></b>	<b><u>546,602</u></b>	<b><u>7,800,499</u></b>	<b><u>8,034,364</u></b>
<b>Expenses</b>						
Governmental Activities:						
Governmental Support	456,622	448,917			456,622	448,917
Education	1,610,095	1,741,685 *			1,610,095	1,741,685 *
Health & Human Services	3,750,402	3,522,341			3,750,402	3,522,341
Justice & Protection	401,740	415,450			401,740	415,450
Transportation Safety	376,689	371,374			376,689	371,374
Other	591,281	659,947			591,281	659,947
Interest	45,551	43,202			45,551	43,202
Business-Type Activities:						
Employment Security			187,703	203,693	187,703	203,693
Lottery			176,837	167,956	176,837	167,956
Military Equip. Maint.			35,058	44,765	35,058	44,765
Dirigo Health			56,702	47,980	56,702	47,980
Other			28,430	31,390	28,430	31,390
<b>Total Expenses</b>	<b><u>7,232,380</u></b>	<b><u>7,202,916</u></b>	<b><u>484,730</u></b>	<b><u>495,784</u></b>	<b><u>7,717,110</u></b>	<b><u>7,698,700</u></b>
<b>Excess (Deficiency) before Special Items and Transfers</b>	<b>19,372</b>	<b>284,846</b>	<b>64,017</b>	<b>50,818</b>	<b>83,389</b>	<b>335,664</b>
Special Items	-	(36,931)	-	(7,086)	-	(44,017)
Transfers	54,968	(13,016)	(54,968)	13,016	-	-
<b>Increase (Decrease) in Net Assets</b>	<b>74,340</b>	<b>234,899</b>	<b>9,049</b>	<b>56,748</b>	<b>83,389</b>	<b>291,647</b>
<b>Net Assets, beginning of year</b>	<b><u>4,217,339</u></b>	<b><u>3,982,440 *</u></b>	<b><u>440,021</u></b>	<b><u>383,273</u></b>	<b><u>4,657,360</u></b>	<b><u>4,365,713 *</u></b>
<b>Ending Net Assets</b>	<b><u>\$ 4,291,679</u></b>	<b><u>\$ 4,217,339</u></b>	<b><u>\$ 449,070</u></b>	<b><u>\$ 440,021</u></b>	<b><u>\$ 4,740,749</u></b>	<b><u>\$ 4,657,360</u></b>
*as restated						

## Governmental Activities

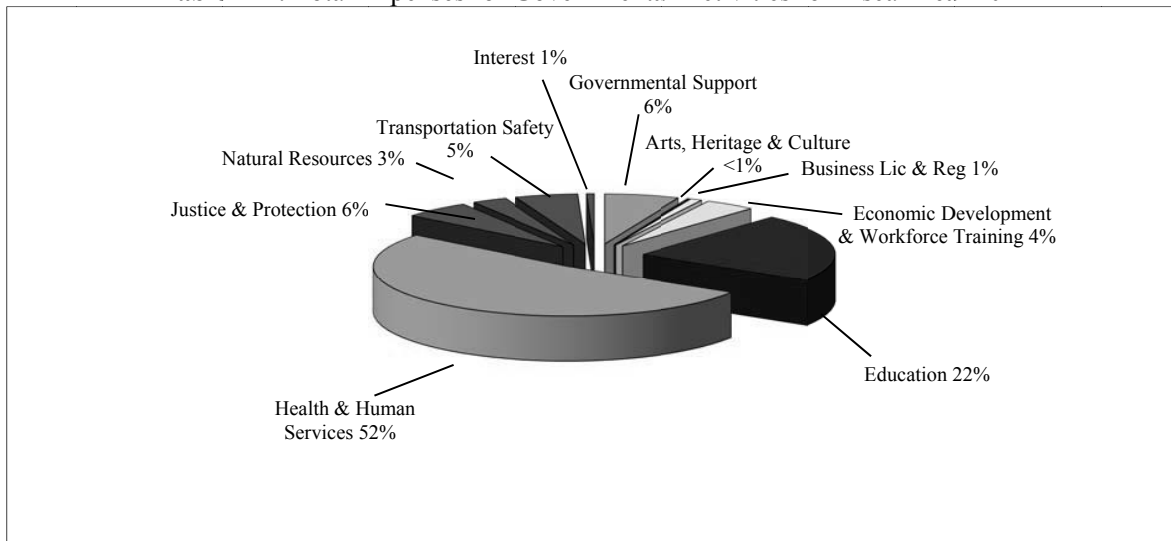
Revenues for the State's Governmental Activities totaled \$7.3 billion while total expenses equaled \$7.2 billion. The increase in net assets for Governmental Activities was \$74.3 million in 2012, resulting mainly from transfers from the State's Business-type activities discussed below. Additionally, program revenues were insufficient to cover program expenses. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes. Tax revenue increased by \$36.7 million from the prior year; however, net expenses supported by tax revenue increased by approximately \$260.2 million. Furthermore, the State's Business-type Activities transferred \$65.0 million (net) to the Governmental Activities, which included statutorily required profit transfers. However, offsetting these profit transfers were contributions totaling \$10.0 million from the Governmental Activities to purchase capital assets that are recorded in the Business-type activities.

The users of the State's programs financed \$488.8 million of the cost. The federal and State governments subsidized certain programs with grants and contributions of \$3.2 billion. \$3.6 billion of the State's net costs were financed by taxes and other miscellaneous revenue.

**Table A-3: Total Sources of Revenues for Governmental Activities for Fiscal Year 2012**



**Table A-4: Total Expenses for Governmental Activities for Fiscal Year 2012**



## Business-type Activities

Revenues for the State's Business-type Activities totaled \$548.7 million while expenses totaled \$484.7 million. The increase in net assets for Business-type Activities was \$9.1 million in 2012, due mainly to the deferred recognition of proceeds resulting from the sale of the State's liquor operations.

Table A-5 presents the cost of State Business-type Activities: employment security, alcoholic beverages, lottery, military equipment maintenance, Dirigo Health and other. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the State's taxpayers by each of these functions.

**Table A-5: Net Cost of Business-Type Activities**  
(Expressed in Thousands)

Category	Total Cost		Net (Cost) Revenue	
	2012	2011	2012	2011
Employment Security	\$ 187,703	\$ 203,693	\$ (3,235)	\$ (19,024)
Alcoholic Beverages	-	-	12,532	12,533
Lottery	176,837	167,956	54,178	50,125
Military Equip. Maint.	35,058	44,765	46	(2,292)
Dirigo Health	56,702	47,980	13,594	23,416
Other	28,430	31,390	(13,098)	(13,940)
Total	<u>\$ 484,730</u>	<u>\$ 495,784</u>	<u>\$ 64,017</u>	<u>\$ 50,818</u>

The cost of all Business-type Activities this year was \$484.7 million. The users of the State's programs financed most of the cost. The State's net revenue from Business-type Activities was \$64.0 million, with the Lottery making up \$54.2 million of the total. The State's Business-type Activities transferred \$65.0 million (net) to the Governmental Activities, which included statutorily required profit transfers. Additionally, the Governmental Activities contributed \$10.0 million to purchase capital assets that are recorded in the Business-type activities.

## FINANCIAL ANALYSIS OF THE STATE'S FUNDS

**Table A-6: Governmental Fund Balances**  
(Expressed in Thousands)

Fund	<u>2012</u>	<u>2011</u>	<u>Change</u>
General	\$ (349,935)	\$ (236,369)	\$ (113,566)
Highway	36,109	31,792	4,317
Federal	15,128	24,419	(9,291)
Other Special Revenue	443,250	399,792	43,458
Other Governmental	99,840	104,849 *	(5,009)
Total	<u>\$ 244,392</u>	<u>\$ 324,483</u>	<u>\$ (80,091)</u>
* As restated			

As of the end of the current fiscal year, the State's governmental funds reported combined ending fund balances of \$244.4 million, a decrease of \$80.1 million in comparison with the prior year. Of this total amount, \$20.9 million (8.5 percent) is classified as non-spendable, either due to its form or legal constraints, and \$530.8 million (217.2 percent) is restricted for specific programs by external constraints, constitutional provisions, or contractual obligations. Unspent bond proceeds, revenue restricted for transportation, natural resources or other programs are included in restricted fund balance. An additional \$38.4 million or 15.7 percent of total fund balance has been committed to specific purposes. Committed amounts cannot be used for any other purpose unless approved by the Legislature. An additional \$12.5 million or 5.1 percent of total fund balance has been assigned to specific purposes, as expressed by government's intent. At the end of the current fiscal year, the unassigned fund balance of the General Fund was a deficit of \$355.9 million, a decline of \$112.3 million.

General Fund expenditures and other uses surpassed General Fund revenues and other sources resulting in a decrease in the fund balance by \$113.6 million. While revenues and other sources of the General Fund increased by approximately \$10.4 million (0.31 percent) which is mainly attributed to an increase in tax revenue (\$63.4 million) offset by a decrease in transfers in from other funds (\$45.1 million); General Fund expenditures increased by \$146.3 million, led by an increase in expenditures for health and human service of \$193.8 million.

The fund balance of the Highway Fund increased \$4.3 million from fiscal year 2011, due mainly to the Highway Fund's reimbursement of approximately \$15.8 million from the Federal Fund for prior period expenditures that were ultimately approved for federal funding.

### Budgetary Highlights

For the 2012 fiscal year, the final legally adopted budgeted expenditures for the General Fund amounted to \$3.2 billion, an increase of about \$108.5 million from the original legally adopted budget of approximately \$3.1 billion. Actual expenditures on a budgetary basis amounted to approximately \$74.9 million less than those authorized in the final budget. After deducting the encumbered obligations and other commitments that will come due in fiscal year 2013, including the budgeted starting balance for Fiscal Year 2012, there were funds remaining of \$26 million to distribute in Fiscal Year 2012. Actual revenues exceeded final budget forecasts by \$2.1 million. As a part of the final budget adjustment for Fiscal Year 2012, the Legislature approved net transfers of \$25.7 million from the State's Budget Stabilization Fund to unappropriated surplus. Interest earnings netted against the legislatively and statutorily approved transfers decreased the balance in the Fund to \$44.8 million as of June 30, 2012. This item is further explained in Note 2 of Notes to the Financial Statements.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

By the end of fiscal year 2012, the State had roughly \$5.2 billion in a broad range of capital assets, including land, infrastructure, improvements, buildings, equipment, vehicles and intangibles. During fiscal year 2012, the State acquired or constructed more than \$417.4 million of capital assets. The most significant impact on capital assets during the year resulted from continued construction and rehabilitation of roads and bridges, and major construction and renovation of State-owned facilities. More detailed information about the State's capital assets and significant construction commitments is presented in Notes 8 and 15 to the financial statements.

**Table A-7 - Capital Assets**  
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 497,893	\$ 488,197	\$ 58,888	\$ 58,888	\$ 556,781	\$ 547,085
Buildings	626,202	592,943	9,449	9,449	635,651	602,392
Equipment	272,567	255,915 *	80,892	67,037	353,459	322,952 *
Improvements	20,843	19,796 *	74,889	63,342	95,732	83,138 *
Software	41,789	9 *	-	-	41,789	9 *
Infrastructure	4,018,966	3,814,466	-	-	4,018,966	3,814,466
Construction in Progress	48,473	119,419	18,555	32,024	67,028	151,443
Total Capital Assets	5,526,733	5,290,745	242,673	230,740	5,769,406	5,521,485
Accumulated Depreciation	441,235	428,414 *	89,910	84,383	531,145	512,797 *
Capital Assets, net	<u>\$ 5,085,498</u>	<u>\$ 4,862,331</u>	<u>\$ 152,763</u>	<u>\$ 146,357</u>	<u>\$ 5,238,261</u>	<u>\$ 5,008,688</u>

\* as restated

### Modified Approach for Infrastructure

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets – highways and bridges. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Utilization of this approach requires the State to: 1) maintain an asset management system that includes an up-to-date inventory of infrastructure assets; 2) perform condition assessments that use a measurement scale and document that the infrastructure assets are being preserved at or above the condition level established; and 3) estimate the annual amounts that must be expended to preserve and maintain the infrastructure at the condition level established by the State. As long as the State meets these requirements, any additions or improvements to infrastructure are capitalized and all other maintenance and preservation costs are expensed.

Highways and bridges are included in the State's infrastructure. There are 8,828 highway miles or 17,993 lane miles within the State. Bridges have a deck area of 11.8 million square feet among 2,963 total bridges. The State has established a policy to maintain its highways at an average condition assessment of 60. At June 30, 2012, the actual average condition was 75.4. Its policy for bridges is an average sufficiency rating condition assessment of 60. The actual average condition for bridges was 79 at June 30, 2012. Preservation costs for fiscal year 2012 totaled \$104.7 million compared to estimated preservation costs of \$185 million.

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 645, PL 2009, \$13.7 million in General fund bonds was spent during FY2012.

Additional information on infrastructure assets can be found in Required Supplementary Information (RSI).

### Long-Term Debt

The State Constitution authorizes general obligation long-term borrowing, with 2/3 approval of the Legislature and ratification by a majority of the voters, and general obligation short-term notes, of which the principal may not exceed an amount greater than 10 percent of all moneys appropriated, authorized and allocated by the Legislature from undedicated revenues to the General Fund and dedicated revenues to the Highway Fund for that fiscal year, or greater than 1 percent of the total valuation of the State of Maine, whichever is the lesser.

At year-end, the State had \$1.5 billion in general obligation and other long-term debt outstanding. More detailed information about the State's long-term liabilities is presented in Note 11 to the financial statements.

**Table A-8 - Outstanding Long-Term Debt**  
(Expressed in Thousands)

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>
General Obligation Bonds	\$ 472,055	\$ 520,230	\$ -	\$ -	\$ 472,055	\$ 520,230
Other Long-Term Obligations	<u>1,001,843</u>	<u>917,588 *</u>	<u>4,726</u>	<u>2,283</u>	<u>1,006,569</u>	<u>919,871 *</u>
Total	<u><u>\$ 1,473,898</u></u>	<u><u>\$ 1,437,818</u></u>	<u><u>\$ 4,726</u></u>	<u><u>\$ 2,283</u></u>	<u><u>\$ 1,478,624</u></u>	<u><u>\$ 1,440,101</u></u>
* as restated						

During the year, the State reduced outstanding long-term obligations by \$97.4 million for outstanding general obligation bonds and \$643.4 million for other long-term debt. Also during fiscal year 2012, the State incurred \$779.4 million of additional long-term obligations.

### Credit Ratings

The State's credit was rated during fiscal year 2012 by Moody's Investors Service as Aa2 with a negative outlook and by Standard & Poor's as AA with a stable outlook.

## **FACTORS BEARING ON THE FUTURE OF STATE AND NEXT YEAR'S BUDGETS**

National and state economic indicators suggest little improvement in economic conditions since the State's Consensus Economic Forecasting Committee (CEFC) met in February 2012. Maine's coincident economic activity index was unchanged in the three months ending in August and remains below pre-recession levels. About half the states saw growth over the three months ending in August. Nationwide, consumer sentiment and small business optimism are up over year-ago levels. Personal income in Maine grew 3.0% year-over-year in the first half of 2012, while wage and salary income grew 1.3% over the same period. The Consumer Price Index was 2.0% higher in September 2012 than it was in September 2011.

The price of crude oil (West Texas Intermediate) remained fairly steady in the third quarter of 2012 around \$92 per barrel. Home sales in Maine increased in six of the seven months since January 2012. Month-over-month, housing permits in Maine grew 33% in August. The median home price in the Portland Metropolitan Statistical Area (York, Cumberland, and Sagadahoc Counties) increased by 3.1% year-over-year in the second quarter of 2012. Mortgage delinquency rates remain well above pre-recession levels but below peak crisis levels. The foreclosure rate in Maine increased in the second quarter of 2012 and remains well above pre-recession levels.

Uncertainty stemming from the "fiscal cliff" has continued to restrain economic growth in recent months. The "fiscal cliff" is a major fiscal tightening that includes the expiry of the Bush tax cuts, the payroll tax cut, emergency unemployment insurance benefits, and depreciation incentives as well as the sequester spending cuts, for a cliff estimated to be worth 3.0% of GDP nationally. Given the severe impact to the economy if a solution is not successfully reached, the CEFC will reevaluate their forecast in the first quarter of calendar year 2013 in response to actual policy decisions at the federal level.

Wage and salary employment growth was revised upwards slightly for 2012 and slightly downwards for 2013-2015 to reflect more robust current-year employment growth and longer-term structural workforce challenges, respectively. Personal income growth was revised upwards for 2012 in part to reflect the stronger employment growth and in 2013 to reflect increased dividends, interest and rent income, while 2014 and 2015 were revised downwards. Inflation, as measured by the Consumer Price Index (CPI), was revised upwards for 2012 and downwards for 2013-2015.

General Fund revenues slowed in FY12 because of the slow national economic recovery. Growth is projected to be flat or negative in FY13 and FY14 because of significant tax reductions enacted by the Legislature during the last two legislative sessions. Revenue growth is projected to return to a more moderate pace of 3.5% once the tax cuts are fully implemented.

At June 30, 2012, the deficit in the State of Maine's Unassigned Fund Balance Account in the General Fund has increased to \$355.9 million (from a deficit unassigned balance of \$243.6 for fiscal year 2011). This increase is primarily due the State using a one-day borrowing from the Other Special Revenue Fund to balance the budget which totaled \$91 million in fiscal year 2012.

There are several factors that adversely affect our General Fund Balance Sheet that we should strive to improve over the next several years. The largest cause for the current condition is the Medicaid liabilities for amounts owed to hospitals and the incurred but not paid liability that accrues at the end of each fiscal year which currently total \$720.4 million of which the General Fund portion is \$263.7 and the budgetary one-day borrowing used to balance the budget. This combined with the lack of significant reserves weakens the General Fund equity position.

Other factors that have a significant impact on the State's Financial Statements compiled and issued in accordance with Generally Accepted Accounting Principles as applicable to governments include such factors as accruing tax revenues for budgetary purposes and for financial statement purposes without accruing the offsetting liabilities for

budgetary purposes and the increase in the demand for appropriations whose balances carry from year to year which results in a lack funds accruing to the Unassigned Fund Balance of the General Fund.

These items together, conspire to cause the State of Maine's General Fund to be subjected to lack of liquidity each year and an inability to adequately manage its Balance Sheet within existing resources.

## **CONTACTING THE STATE'S FINANCIAL MANAGEMENT**

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the finances of the State and to demonstrate the State's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact:

State of Maine  
Office of the State Controller  
14 State House Station  
Augusta, ME 04333-0014  
(207)-626-8420  
[financialreporting@maine.gov](mailto:financialreporting@maine.gov)



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# **BASIC FINANCIAL STATEMENTS**

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# STATE OF MAINE STATEMENT OF NET ASSETS

June 30, 2012  
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Totals	
<b>Assets</b>				
Current Assets:				
Equity in Treasurer's Cash Pool	\$ 250,306	\$ 16,626	\$ 266,932	\$ 68,900
Cash and Cash Equivalents	2,473	1,901	4,374	111,009
Cash with Fiscal Agent	151,337	-	151,337	-
Investments	73,281	-	73,281	624,607
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	20,918	-	20,918	-
Restricted Deposits and Investments	3,694	269,597	273,291	44,573
Inventories	6,060	2,497	8,557	3,480
Receivables, Net of Allowance for Uncollectibles:				
Taxes Receivable	371,716	-	371,716	-
Loans Receivable	5,538	-	5,538	105,128
Notes Receivable	-	-	-	3,621
Other Receivables	222,501	56,696	279,197	95,986
Internal Balances	5,421	(5,421)	-	-
Due from Other Governments	530,978	-	530,978	165,703
Due from Primary Government	-	-	-	16,214
Loans receivable from primary government	-	-	-	24,086
Due from Component Units	48,663	-	48,663	-
Other Current Assets	4,385	1,875	6,260	42,989
Total Current Assets	1,697,271	343,771	2,041,042	1,306,296
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	103,103	6,838	109,941	28,340
Assets Held in Trust	-	-	-	2
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	8,456	-	8,456	-
Restricted Deposits and Investments	-	-	-	587,580
Investments	-	-	-	488,741
Receivables, Net of Current Portion:				
Taxes Receivable	92,659	-	92,659	-
Loans Receivable	-	-	-	2,589,794
Notes Receivable	-	-	-	69,781
Other Receivables	860	-	860	17,932
Due from Other Governments	7,494	-	7,494	1,416,602
Loans receivable from primary government	-	-	-	304,045
Due From Primary Government	-	-	-	1,487
Other Noncurrent Assets	-	-	-	63,916
Post-Employment Benefit Asset	1,760	-	1,760	9,783
Capital Assets:				
Land, Infrastructure, and Other Non-Depreciable Assets	4,565,332	77,443	4,642,775	552,623
Buildings, Equipment and Other Depreciable Assets	961,401	165,230	1,126,631	1,571,948
Less: Accumulated Depreciation	(441,235)	(89,910)	(531,145)	(580,336)
Capital Assets, Net of Accumulated Depreciation	5,085,498	152,763	5,238,261	1,544,235
Total Noncurrent Assets	5,299,830	159,601	5,459,431	7,122,238
Total Assets	\$ 6,997,101	\$ 503,372	\$ 7,500,473	\$ 8,428,534

The accompanying notes are an integral part of the financial statements.

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
<b>Liabilities</b>				
Current Liabilities:				
Accounts Payable	\$ 901,319	\$ 8,673	\$ 909,992	\$ 105,688
Accrued Payroll	41,037	1,420	42,457	3,561
Tax Refunds Payable	167,260	-	167,260	-
Due to Component Units	16,342	-	16,342	-
Due to Primary Government	-	-	-	48,663
Undistributed Grants and Administrative Funds	-	-	-	10,693
Allowances for Losses on Insured Commercial Loans	-	-	-	12,235
Current Portion of Long-Term Obligations:				
Compensated Absences	4,430	109	4,539	2,184
Due to Other Governments	76,062	-	76,062	3,713
Amounts Held under State & Federal Loan Programs	-	-	-	48,423
Claims Payable	25,767	-	25,767	-
Bonds and Notes Payable	102,330	-	102,330	177,122
Notes Payable	-	-	-	1,469
Revenue Bonds Payable	18,245	-	18,245	55,603
Obligations under Capital Leases	5,324	-	5,324	350
Certificates of Participation and Other Financing Arrangements	26,323	-	26,323	-
Loans Payable to Component Unit	24,085	-	24,085	-
Accrued Interest Payable	6,866	-	6,866	45,899
Deferred Revenue	1,133	12,790	13,923	55,794
Other Current Liabilities	7,762	14,193	21,955	57,835
Total Current Liabilities	1,424,285	37,185	1,461,470	629,232
Long-Term Liabilities:				
Compensated Absences	37,624	1,480	39,104	-
Due to Component Units	1,359	-	1,359	-
Due to Other Governments	-	-	-	4,830
Amounts Held under State & Federal Loan Programs	-	-	-	44,017
Claims Payable	38,556	-	38,556	-
Bonds and Notes Payable	369,725	-	369,725	3,614,182
Notes Payable	-	-	-	25,162
Revenue Bonds Payable	169,620	-	169,620	1,209,783
Obligations under Capital Leases	24,454	-	24,454	5,948
Certificates of Participation and Other Financing Arrangements	25,774	-	25,774	-
Loans Payable to Component Unit	304,046	-	304,046	-
Deferred Revenue	12,384	12,500	24,884	31,315
Pension Obligation	2,010	-	2,010	-
Other Post-Employment Benefit Obligation	266,705	3,137	269,842	-
Pollution Remediation and Landfill Obligations	28,880	-	28,880	-
Other Noncurrent Liabilities	-	-	-	138,742
Total Long-Term Liabilities	1,281,137	17,117	1,298,254	5,073,979
Total Liabilities	2,705,422	54,302	2,759,724	5,703,211
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	4,408,377	152,763	4,561,140	948,600
Restricted:				
Transportation Purposes	190,642	-	190,642	-
Business Licensing & Regulation	67,374	-	67,374	-
Justice and Protection	5,966	-	5,966	-
Natural Resources	41,803	-	41,803	-
Health and Human Services	28,430	-	28,430	-
Capital Projects	26,735	-	26,735	-
Government Support & Operations	90,740	-	90,740	-
Unemployment Compensation	-	295,632	295,632	-
Other Purposes	7,816	-	7,816	1,158,825
Funds Held as Permanent Investments:				
Expendable	58,972	-	58,972	-
Nonexpendable	16,328	-	16,328	213,124
Unrestricted	(651,504)	675	(650,829)	404,774
Total Net Assets	\$ 4,291,679	\$ 449,070	\$ 4,740,749	\$ 2,725,323

# STATE OF MAINE STATEMENT OF ACTIVITIES

Fiscal Year Ended June 30, 2012  
(Expressed in Thousands)

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
<b>Primary government:</b>				
Governmental activities:				
Governmental Support & Operations	\$ 456,622	\$ 80,534	\$ 43,617	\$ -
Arts, Heritage & Cultural Enrichment	11,507	1,006	2,939	-
Business Licensing & Regulation	68,697	75,633	(1,116)	-
Economic Development & Workforce Training	302,614	7,175	215,720	-
Education	1,610,095	6,897	198,560	-
Health & Human Services	3,750,402	20,018	2,348,167	-
Justice & Protection	401,740	86,583	59,700	-
Natural Resources Development & Protection	208,463	93,991	53,043	-
Transportation Safety & Development	376,689	116,995	239,611	-
Interest Expense	45,551	-	-	-
Total Governmental Activities	<u>7,232,380</u>	<u>488,832</u>	<u>3,160,241</u>	<u>-</u>
<b>Business-Type Activities:</b>				
Employment Security	187,703	176,645	7,823	-
Alcoholic Beverages	-	12,532	-	-
Lottery	176,837	231,015	-	-
Transportation	9,310	4,692	-	-
Ferry Services	11,458	4,695	-	-
Military Equipment Maintenance	35,058	35,104	-	-
Dirigo Health	56,702	70,296	-	-
Other	7,662	5,945	-	-
Total Business-Type Activities	<u>484,730</u>	<u>540,924</u>	<u>7,823</u>	<u>-</u>
Total Primary Government	<u>\$ 7,717,110</u>	<u>\$ 1,029,756</u>	<u>\$ 3,168,064</u>	<u>\$ -</u>
<b>Component Units:</b>				
Finance Authority of Maine	37,575	12,644	22,352	-
Maine Community College System	127,768	16,672	63,942	31,098
Maine Health & Higher Educational Facilities Authority	53,443	49,411	8,944	-
Maine Municipal Bond Bank	81,049	65,370	17,905	27,393
Maine State Housing Authority	267,551	81,488	189,736	-
Maine Turnpike Authority	89,562	107,543	-	-
University of Maine System	684,277	298,670	177,297	19,695
All Other Non-Major Component Units	156,836	41,501	74,424	144,647
Total Component Units	<u>\$ 1,498,061</u>	<u>\$ 673,299</u>	<u>\$ 554,600</u>	<u>\$ 222,833</u>
<b>General Revenues:</b>				
Taxes:				
Corporate				
Individual Income				
Fuel				
Property				
Sales & Use				
Other				
Unrestricted Investment Earnings				
Non-Program Specific Grants, Contributions & Appropriations				
Miscellaneous Income				
Loss on Assets Held for Sale				
Tobacco Settlement				
Transfers - Internal Activities				
Total General Revenues and Transfers				
Change in Net Assets				
Net Assets - Beginning (As Restated)				
Net Assets - Ending				

The accompanying notes are an integral part of the financial statements.

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (332,471)	\$ -	\$ (332,471)	\$ -
(7,562)	-	(7,562)	-
5,820	-	5,820	-
(79,719)	-	(79,719)	-
(1,404,638)	-	(1,404,638)	-
(1,382,217)	-	(1,382,217)	-
(255,457)	-	(255,457)	-
(61,429)	-	(61,429)	-
(20,083)	-	(20,083)	-
(45,551)	-	(45,551)	-
(3,583,307)	-	(3,583,307)	-
-	(3,235)	(3,235)	-
-	12,532	12,532	-
-	54,178	54,178	-
-	(4,618)	(4,618)	-
-	(6,763)	(6,763)	-
-	46	46	-
-	13,594	13,594	-
-	(1,717)	(1,717)	-
-	64,017	64,017	-
\$ (3,583,307)	\$ 64,017	\$ (3,519,290)	\$ -
-	-	-	(2,579)
-	-	-	(16,056)
-	-	-	4,912
-	-	-	29,619
-	-	-	3,673
-	-	-	17,981
-	-	-	(188,615)
-	-	-	103,736
\$ -	\$ -	\$ -	\$ (47,329)
334,818	-	334,818	-
1,459,039	-	1,459,039	-
245,815	-	245,815	-
45,902	-	45,902	-
1,113,952	-	1,113,952	-
273,062	-	273,062	-
2,543	-	2,543	6,632
-	-	-	291,765
76,360	-	76,360	3,572
-	-	-	(28)
51,188	-	51,188	-
54,968	(54,968)	-	-
3,657,647	(54,968)	3,602,679	301,941
74,340	9,049	83,389	254,612
4,217,339	440,021	4,657,360	2,470,711
\$ 4,291,679	\$ 449,070	\$ 4,740,749	\$ 2,725,323



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# GOVERNMENTAL FUND FINANCIAL STATEMENTS

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## MAJOR FUNDS

General Fund – This is the State's primary operating fund. Its purpose is to account for all financial resources obtained and used for general government operations, which are not required to be accounted for in another fund.

Highway Fund – This fund is used primarily to account for motor fuel tax revenues, motor vehicle license and registration fees, and special State appropriations that are legally restricted to the construction and maintenance of State highways and bridges.

Federal Fund – This fund is used to account for grants, block grants and other financial assistance received from the federal government, that are legally restricted to expenditures for purposes specified in the grant awards or agreements.

Other Special Revenue Fund – This fund is used to account for revenue sources that are legally restricted to expenditures for specified purposes, including some major capital projects that are not accounted for in the Highway and Federal Funds.

## NON-MAJOR FUNDS

*Other Governmental Funds* are used to account for revenue sources that are legally restricted to expenditures for specified purposes, including some major capital projects and funds held in trust for public purposes.

Other governmental funds are presented, by fund type, beginning on page 121.

# STATE OF MAINE BALANCE SHEET GOVERNMENTAL FUNDS

June 30, 2012  
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Equity in Treasurer's Cash Pool	\$ 8,895	\$ 40,385	\$ 8,670	\$ 134,376	\$ 2,019	\$ 194,345
Cash and Short-Term Investments	120	116	1	43	2,190	2,470
Cash with Fiscal Agent	1,066	1,016	-	134,602	-	136,684
Investments	-	-	-	-	73,281	73,281
Restricted Assets:						
Restricted Equity in Treasurer's Cash Pool	360	-	-	-	29,014	29,374
Inventories	1,413	-	483	-	-	1,896
Receivables, Net of Allowance for Uncollectibles:						
Taxes Receivable	426,523	27,167	-	10,685	-	464,375
Loans Receivable	1	27	-	5,510	-	5,538
Other Receivable	75,951	3,609	72,573	67,211	39	219,383
Due from Other Funds	14,463	7,173	1,415	120,350	214	143,615
Due from Other Governments	-	-	530,530	-	-	530,530
Due from Component Units	3,000	-	-	45,547	116	48,663
Other Assets	1,803	45	372	561	43	2,824
Working Capital Advances Receivable	111	-	-	-	-	111
<b>Total Assets</b>	<b>\$ 533,706</b>	<b>\$ 79,538</b>	<b>\$ 614,044</b>	<b>\$ 518,885</b>	<b>\$ 106,916</b>	<b>\$ 1,853,089</b>
<b>Liabilities and Fund Balances</b>						
Accounts Payable	\$ 294,556	\$ 24,938	\$ 499,221	\$ 25,543	\$ 3,817	\$ 848,075
Accrued Payroll	16,746	6,673	4,795	8,050	979	37,243
Tax Refunds Payable	167,252	8	-	-	-	167,260
Due to Other Governments	3,792	-	70,539	-	-	74,331
Due to Other Funds	159,085	3,180	12,425	4,683	19	179,392
Due to Component Units	1,864	7	8,174	2,346	1,585	13,976
Compensated Absences	-	-	-	-	350	350
Deferred Revenue	235,827	8,623	2,214	32,126	7	278,797
Other Accrued Liabilities	4,519	-	1,548	2,887	319	9,273
<b>Total Liabilities</b>	<b>883,641</b>	<b>43,429</b>	<b>598,916</b>	<b>75,635</b>	<b>7,076</b>	<b>1,608,697</b>
<b>Fund Balances:</b>						
Nonspendable:						
Permanent Fund Principal	-	-	-	-	16,328	16,328
Inventories and Prepaid Items	2,965	45	855	633	30	4,528
Restricted	2,989	36,064	14,273	391,692	85,782	530,800
Committed	-	-	-	38,436	-	38,436
Assigned	-	-	-	12,489	-	12,489
Unassigned	(355,889)	-	-	-	(2,300)	(358,189)
<b>Total Fund Balances</b>	<b>(349,935)</b>	<b>36,109</b>	<b>15,128</b>	<b>443,250</b>	<b>99,840</b>	<b>244,392</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 533,706</b>	<b>\$ 79,538</b>	<b>\$ 614,044</b>	<b>\$ 518,885</b>	<b>\$ 106,916</b>	<b>\$ 1,853,089</b>

The accompanying notes are an integral part of the financial statements.

# STATE OF MAINE

## RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2012  
(Expressed in Thousands)

Total fund balances for governmental funds		\$ 244,392
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	5,173,912	
Less: Accumulated depreciation	<u>(244,193)</u>	4,929,719
Other Post-Employment Benefit Assets are not financial resources		1,760
Pollution Remediation Receivable		4,371
Long-term liabilities are not due and payable in the current period. Therefore, long-term liabilities are not reported in the governmental fund statements. However, these amounts are included in the Statement of Net Assets. This is the net effect of these balances on the statement:		
Bonds Payable	(659,920)	
Interest Payable Related to Long-term Financing	(4,541)	
Certificates of Participation and Other Financing Arrangements	(13,144)	
Capital Leases	(68)	
Other accrued	(9)	
Loans Payable to Component Unit	(328,131)	
Compensated Absences	(37,695)	
Pension Obligation	(2,010)	
Other Post-Employment Benefit Obligation	(266,705)	
Pollution Remediation Obligation and Landfill Post Closure Liability	<u>(28,880)</u>	(1,341,103)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		269,290
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		183,250
Net assets of governmental activities		<u><u>\$ 4,291,679</u></u>

The accompanying notes are an integral part of the financial statements.

**STATE OF MAINE**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

Fiscal Year Ended June 30, 2012  
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>						
Taxes	\$ 2,990,353	\$ 219,540	\$ -	\$ 260,032	\$ -	\$ 3,469,925
Assessments and Other Revenue	103,292	90,494	1	138,075	-	331,862
Federal Grants and Reimbursements	3,377	-	3,147,893	10,789	-	3,162,059
Service Charges	49,008	6,124	451	90,408	1,388	147,379
Investment Income (Loss)	1,413	141	18	423	(696)	1,299
Miscellaneous Revenue	17,047	693	393	108,852	342	127,327
Total Revenues	<u>3,164,490</u>	<u>316,992</u>	<u>3,148,756</u>	<u>608,579</u>	<u>1,034</u>	<u>7,239,851</u>
<b>Expenditures</b>						
Current:						
Governmental Support & Operations	255,191	2,726	14,027	136,662	124	408,730
Economic Development & Workforce Training	33,561	-	220,193	30,867	17,206	301,827
Education	1,335,736	-	227,257	12,563	41,431	1,616,987
Health and Human Services	1,126,805	-	2,345,952	298,077	265	3,771,099
Business Licensing & Regulation	-	-	390	65,486	-	65,876
Natural Resources Development & Protection	65,332	33	50,915	83,142	4,931	204,353
Justice and Protection	253,226	27,761	59,164	42,972	-	383,123
Arts, Heritage & Cultural Enrichment	7,117	-	2,880	901	83	10,981
Transportation Safety & Development	-	280,767	199,323	84,664	1,786	566,540
Debt Service:						
Principal Payments	98,340	16,385	10,770	9,370	21	134,886
Interest Payments	21,714	5,406	4,208	8,805	-	40,133
Capital Outlay	-	-	-	-	25,729	25,729
Total Expenditures	<u>3,197,022</u>	<u>333,078</u>	<u>3,135,079</u>	<u>773,509</u>	<u>91,576</u>	<u>7,530,264</u>
Revenue over (under) Expenditures	<u>(32,532)</u>	<u>(16,086)</u>	<u>13,677</u>	<u>(164,930)</u>	<u>(90,542)</u>	<u>(290,413)</u>
Other Financing Sources (Uses):						
Transfer from Other Funds	134,722	29,328	19,676	207,960	34,449	426,135
Transfer to Other Funds	(216,827)	(9,954)	(42,644)	(91,769)	(4,742)	(365,936)
COP's and Other	1,071	1,029	-	471	54	2,625
Loan Proceeds from Component Units	-	-	-	58,726	-	58,726
Bonds Issued	-	-	-	33,000	49,265	82,265
Premium on Bonds Issued	-	-	-	-	6,507	6,507
Net Other Finance Sources (Uses)	<u>(81,034)</u>	<u>20,403</u>	<u>(22,968)</u>	<u>208,388</u>	<u>85,533</u>	<u>210,322</u>
Net Change in Fund Balances	<u>(113,566)</u>	<u>4,317</u>	<u>(9,291)</u>	<u>43,458</u>	<u>(5,009)</u>	<u>(80,091)</u>
Fund Balances at Beginning of Year (As Restated)	<u>(236,369)</u>	<u>31,792</u>	<u>24,419</u>	<u>399,792</u>	<u>104,849</u>	<u>324,483</u>
Fund Balances at End of Year	<u>\$ (349,935)</u>	<u>\$ 36,109</u>	<u>\$ 15,128</u>	<u>\$ 443,250</u>	<u>\$ 99,840</u>	<u>\$ 244,392</u>

The accompanying notes are an integral part of the financial statements.

# STATE OF MAINE

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

June 30, 2012  
(Expressed in Thousands)

Net change in fund balances - total governmental funds		\$ (80,091)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, the amounts are:		
Capital outlay	244,809	
Depreciation expense	<u>(21,583)</u>	223,226
The net effect of various transactions involving capital assets (ie. sales, trade ins and contributions) is to increase net assets.		(30)
Post-employment benefit asset funding, net		1,460
Pollution Remediation Receivable		(14,624)
The issuance of long-term debt provides current financial resources to governmental funds which increases long-term debt in the Statement of Net Assets. Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but repayment reduces long-term debt in the Statement of Net Assets. This is the amount that proceeds exceed repayments:		
Bond proceeds	(82,265)	
Proceeds from other financing arrangements	(2,571)	
Loan proceeds from component unit	(58,726)	
Repayment of bond principal	114,725	
Repayment of other financing debt	14,091	
Repayment of pledged revenue principal	21,514	
Accrued interest	<u>505</u>	7,273
Certain expenditures are reported in the funds. However, they either increase or decrease long-term liabilities reported as expenditures on the Statement of Net Assets and have been eliminated from the Statement of Activities as follows:		
Pension obligation	18	
Other post-employment benefit obligation	(76,083)	
Pollution remediation obligation	18,157	
Claims payable	4	
Compensated absences	<u>4,320</u>	(53,584)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		1,990
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is included in governmental activities in the Statement of Activities.		(11,280)
Changes in net assets of governmental activities		<u>\$ 74,340</u>

The accompanying notes are an integral part of the financial statements.



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# PROPRIETARY FUND FINANCIAL STATEMENTS

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## MAJOR FUND

Unemployment Compensation Fund - This fund from employers and the payment of unemployment accounts for unemployment insurance contributions benefits to eligible claimants.

## NON-MAJOR FUNDS

Other *Non-Major Enterprise Funds* are used to account for operations that are financed and operated in a manner similar to private business, where the State intends to finance or recover the costs of providing goods or services to the General Public on a continuing basis primarily through user charges. The State also uses these funds where periodic determination of net income is appropriate for accountability purposes.

Non-major enterprise funds are presented beginning on page 141.

Combining fund statements for the internal service funds, whose combined totals are presented on these statements, begin on page 149.

# STATE OF MAINE STATEMENT OF NET ASSETS PROPRIETARY FUNDS

June 30, 2012  
(Expressed in Thousands)

	Business-Type Activities			Governmental Activities Internal Service Funds
	Enterprise Funds		Totals	
	Major Employment Security	Non-Major Other Enterprise		
<b>Assets</b>				
Current Assets:				
Equity in Treasurer's Cash Pool	\$ -	\$ 16,626	\$ 16,626	\$ 112,706
Cash and Short-Term Investments	1,145	756	1,901	3
Cash with Fiscal Agent	-	-	-	14,653
Restricted Assets:				
Restricted Deposits and Investments	269,597	-	269,597	3,694
Inventories	-	2,497	2,497	4,164
Receivables, Net of Allowance for Uncollectibles:				
Other Receivable	31,466	25,230	56,696	463
Due from Other Funds	24	270	294	19,468
Other Current Assets	-	1,875	1,875	1,561
Total Current Assets	302,232	47,254	349,486	156,712
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	-	6,838	6,838	46,358
Capital Assets - Net of Depreciation	-	152,763	152,763	155,779
Total Noncurrent Assets	-	159,601	159,601	202,137
Total Assets	302,232	206,855	509,087	358,849
<b>Liabilities</b>				
Current Liabilities:				
Accounts Payable	5,935	2,738	8,673	23,049
Accrued Payroll	-	1,420	1,420	3,794
Due to Other Funds	-	5,239	5,239	6,286
Due to Component Units	-	-	-	3,725
Current Portion of Long-Term Obligations:				
Certificates of Participation and Other Financing Arrangements	-	-	-	14,906
Obligations Under Capital Leases	-	-	-	5,298
Claims Payable	-	-	-	25,767
Compensated Absences	-	109	109	271
Deferred Revenue	-	12,790	12,790	646
Other Accrued Liabilities	665	13,528	14,193	805
Total Current Liabilities	6,600	35,824	42,424	84,547
Long-Term Liabilities:				
Working Capital Advances Payable	-	-	-	111
Deferred Revenue	-	12,500	12,500	664
Certificates of Participation and Other Financing Arrangements	-	-	-	24,047
Obligations Under Capital Leases	-	-	-	24,412
Claims Payable	-	-	-	38,556
Compensated Absences	-	1,480	1,480	3,738
Other Post-Employment Benefit Obligation	-	3,137	3,137	-
Total Long-Term Liabilities	-	17,117	17,117	91,528
Total Liabilities	6,600	52,941	59,541	176,075
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	-	152,763	152,763	108,776
Restricted for:				
Unemployment Compensation	295,632	-	295,632	-
Other Purposes	-	-	-	39
Unrestricted	-	1,151	1,151	73,959
Total Net Assets	\$ 295,632	\$ 153,914	\$ 449,546	\$ 182,774
Amounts reported for business-type activities in the government-wide Statement of Activities are different due to elimination of the State's internal business-type activities			(476)	
			\$ 449,070	

The accompanying notes are an integral part of the financial statements.

# STATE OF MAINE

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

### PROPRIETARY FUNDS

Fiscal Year Ended June 30, 2012  
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities Internal Service Funds
	Major Employment Security	Non-Major Other Enterprise	Totals	
<b>Operating Revenues</b>				
Charges for Services	\$ -	\$ 348,479	\$ 348,479	\$ 397,856
Assessments	176,645	1,717	178,362	-
Miscellaneous Revenues	-	547	547	553
Total Operating Revenues	176,645	350,743	527,388	398,409
<b>Operating Expenses</b>				
General Operations	-	288,587	288,587	370,464
Depreciation	-	8,290	8,290	20,079
Claims/Fees Expense	187,703	-	187,703	12,822
Other Operating Expenses	-	-	-	755
Total Operating Expenses	187,703	296,877	484,580	404,120
Operating Income (Loss)	(11,058)	53,866	42,808	(5,711)
<b>Nonoperating Revenues (Expenses)</b>				
Investment Revenue (Expense) - net	7,823	-	7,823	1,244
Interest Expense	-	-	-	(7,283)
Other Nonoperating Revenues (Expenses) - net	-	13,536	13,536	(5,987)
Total Nonoperating Revenues (Expenses)	7,823	13,536	21,359	(12,026)
Income (Loss) Before Capital Contributions and Transfers	(3,235)	67,402	64,167	(17,737)
<b>Capital Contributions and Transfers</b>				
Capital Contributions from (to) Other Funds	-	10,003	10,003	1,417
Transfers from Other Funds	-	7,713	7,713	9,221
Transfers to Other Funds	(1,420)	(71,264)	(72,684)	(4,331)
Total Capital Contributions and Transfers In (Out)	(1,420)	(53,548)	(54,968)	6,307
Change in Net Assets	(4,655)	13,854	9,199	(11,430)
Total Net Assets - Beginning of Year	300,287	140,060	440,347	194,204
Total Net Assets - End of Year	\$ 295,632	\$ 153,914		\$ 182,774
Amounts reported for business-type activities in the government-wide Statement of Activities are different due to elimination of the State's internal business-types activities			(150)	
Changes in Business-Types Net Assets			\$ 9,049	

The accompanying notes are an integral part of the financial statements.

**STATE OF MAINE**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**

June 30, 2012  
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities Internal Service Funds
	Major Employment Security	Non-Major Other Enterprise	Totals	
<b>Cash Flows from Operating Activities</b>				
Receipts from Customers and Users	\$ 180,441	\$ 351,146	\$ 531,587	\$ 399,569
Payments of Benefits	(182,866)	-	(182,866)	-
Payments to Prize Winners	-	(144,018)	(144,018)	-
Payments to Suppliers	-	(113,289)	(113,289)	(296,398)
Payments to Employees	-	(26,176)	(26,176)	(70,176)
Net Cash Provided (Used) by Operating Activities	(2,425)	67,663	65,238	32,995
<b>Cash Flows from Noncapital Financing Activities</b>				
Transfers from Other Funds	-	7,712	7,712	9,221
Transfers to Other Funds	(1,420)	(71,263)	(72,683)	(4,331)
Net Cash Provided (Used) by Noncapital Financing Activities	(1,420)	(63,551)	(64,971)	4,890
<b>Cash Flows from Capital and Related Financing Activities</b>				
Payments for Acquisition of Capital Assets	-	(4,694)	(4,694)	(23,853)
Proceeds from Financing Arrangements	-	-	-	4,600
Principal and Interest Paid on Financing Arrangements	-	-	-	(24,843)
Proceeds from Sale of Capital Assets	-	970	970	-
Net Cash Provided (Used) by Capital Financing Activities	-	(3,724)	(3,724)	(44,096)
<b>Cash Flows from Investing Activities</b>				
Interest Revenue	7,823	67	7,890	1,244
Net Cash Provided (Used) by Investing Activities	7,823	67	7,890	1,244
Net Increase (Decrease) in Cash/Cash Equivalents	3,978	455	4,433	(4,967)
Cash/Cash Equivalents - Beginning of Year	266,764	23,765	290,529	182,381
Cash/Cash Equivalents - End of Year	\$ 270,742	\$ 24,220	\$ 294,962	\$ 177,414
<b>Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities</b>				
Operating Income (Loss)	\$ (11,058)	\$ 53,866	\$ 42,808	\$ (5,711)
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</b>				
Depreciation Expense	-	8,290	8,290	20,079
Decrease (Increase) in Assets:				
Accounts Receivable	3,807	403	4,210	64
Interfund Balances	(11)	3,113	3,102	1,548
Inventories	-	(110)	(110)	(709)
Other Assets	-	-	-	266
Increase (Decrease) in Liabilities:				
Accounts Payable	5,062	(26)	5,036	14,788
Accrued Payroll Expenses	-	336	336	1,026
Due to Other Governments	-	-	-	(3)
Change in Compensated Absences	-	707	707	(419)
Other Accruals	(225)	1,084	859	2,066
Total Adjustments	8,633	13,797	22,430	38,706
Net Cash Provided (Used) by Operating Activities	\$ (2,425)	\$ 67,663	\$ 65,238	\$ 32,995
<b>Non Cash Investing, Capital and Financing Activities</b>				
Property Leased, Accrued, or Acquired	-	-	-	1,401
Contributed Capital Assets	-	10,003	10,003	1,417
Decrease of Deferred Revenue from the Sale of Liquor Operations	-	12,500	12,500	-

The accompanying notes are an integral part of the financial statements.

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# FIDUCIARY FUND FINANCIAL STATEMENTS

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Pension (and Other Employee Benefit) Trusts – accounts for funds held by the Maine Public Employees Retirement System (the System), a component unit included with Fiduciary Funds per GASB Statement No. 34. The System provides pension, death, and disability benefits to its members, including State employees, some public school employees, and employees of approximately 293 local municipalities and other public entities in Maine.

Other Private-Purpose Trusts and Agency Funds are used to account for private-purpose assets held by the State in a fiduciary capacity, acting as either a trustee or an agent for individuals, organizations or other funds. Private-Purpose Trusts also include assets of NextGen College Investing Plan.

A listing of fiduciary funds and combining fund statements for private-purpose trusts and agency funds begins on page 161.

**STATE OF MAINE**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**

June 30, 2012  
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts	Agency Funds
<b>Assets</b>			
Equity in Treasurer's Cash Pool	\$ -	\$ 1,632	\$ 13,574
Cash and Short-Term Investments	61,168	-	27
Receivables, Net of Allowance for Uncollectibles:			
State and Local Agency Contributions	6,000	-	-
Interest and Dividends	4,818	4,176	-
Due from Brokers for Securities Sold	74,942	12,525	-
Other	28,075	-	-
Investments at Fair Value:			
Debt Securities	972	-	-
Equity Securities	3,637,612	-	-
Common/Collective Trusts	6,971,761	-	-
Foreign Governments and Agencies	-	-	11
Other	-	11,501	-
Securities Lending Collateral	812,174	-	-
Due from Other Funds	-	30,195	-
Investments Held on Behalf of Others	-	6,013,272	70,180
Capital Assets - Net of Depreciation	10,849	-	-
Other Assets	-	3,887	3,243
Total Assets	<u>11,608,371</u>	<u>6,077,188</u>	<u>87,035</u>
<b>Liabilities</b>			
Accounts Payable	5,715	3,847	1
Due to Other Funds	-	6	2,649
Due to Brokers for Securities Purchased	-	12,525	-
Agency Liabilities	-	-	84,341
Obligations Under Securities Lending	812,174	-	-
Other Accrued Liabilities	23,615	-	44
Total Liabilities	<u>841,504</u>	<u>16,378</u>	<u>87,035</u>
<b>Net Assets</b>			
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes	<u>10,766,867</u>	<u>6,060,810</u>	<u>-</u>
Total Net Assets	<u>\$ 10,766,867</u>	<u>\$ 6,060,810</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements.

**STATE OF MAINE**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**

Fiscal Year Ended June 30, 2012  
(Expressed in Thousands)

	<b>Pension (and Other Employee Benefit) Trusts</b>	<b>Private Purpose Trusts</b>
<b>Additions:</b>		
Contributions:		
Members	\$ 161,692	\$1,726,338
State and Local Agencies	355,405	-
Investment Income (Loss):		
Net Increase (Decrease) in the Fair Value of Investments	(22,850)	(217,829)
Capital Gains Distributions from Investments	-	41,162
Interest and Dividends	100,784	114,018
Securities Lending Income	1,709	-
Less Investment Expense:		
Investment Activity Expense	24,338	-
Securities Lending Expense	(740)	-
Net Investment Income (Loss)	56,045	(62,649)
Miscellaneous Revenues	-	7,295
Transfers In	-	671
<b>Total Additions</b>	<b>573,142</b>	<b>1,671,655</b>
<b>Deductions:</b>		
Benefits Paid to Participants or Beneficiaries	802,018	1,587,162
Refunds and Withdrawals	45,201	-
Administrative Expenses	10,027	46,140
Claims Processing Expense	722	-
Transfers Out	-	784
<b>Total Deductions</b>	<b>857,968</b>	<b>1,634,086</b>
<b>Net Increase (Decrease)</b>	<b>(284,826)</b>	<b>37,569</b>
<b>Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes:</b>		
Beginning of Year	11,051,693	6,023,241
End of Year	<u>\$ 10,766,867</u>	<u>\$6,060,810</u>

The accompanying notes are an integral part of the financial statements.



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# COMPONENT UNIT FINANCIAL STATEMENTS

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Finance Authority of Maine (FAME) – The Authority provides commercial financing and loan guarantees to Maine businesses and educational financing to Maine students and their parents; administers several revolving loan programs on behalf of the State; and administers the Maine College Savings Program Fund.

Maine Community College System – is Maine’s primary provider of post-secondary technical education leading to a certificate, diploma, or associate degree. The financial statements of the system include the activity of seven colleges, the central administrative office, and the Maine Career Advantage.

Maine Health & Higher Educational Facilities Authority – MHHEFA assists Maine health care institutions and institutions of higher education in undertaking projects involving the acquisition, construction, improvement, reconstruction and equipping of health care and educational facilities and the refinancing of existing indebtedness. The Authority, pursuant to the Student Loan Corporations Act of 1983, may finance student loan programs of institutions of higher education.

Maine Municipal Bond Bank – is authorized to issue bonds providing funds to counties, cities, towns, school districts, or other quasi-municipal corporations within the State.

Maine State Housing Authority – is authorized to issue bonds for the purchase of notes and mortgages on single- and multi-family residential units to provide housing for persons and families of low income in the State. The Authority also acts as agent for the State in administering federal weatherization, energy conservation, fuel assistance and homeless grant programs, and collecting and disbursing federal rent subsidies for low income housing.

The Maine Turnpike Authority – is authorized and empowered to construct, maintain and operate a turnpike at such a location as shall be approved by the State Highway Commission and to issue turnpike revenue bonds of the Authority, payable solely from revenues of the Authority.

University of Maine System – The State University consists of seven campuses and a central administrative office.

Non-Major Component Units combining fund statements begin on page 171.

**STATE OF MAINE**  
**STATEMENT OF NET ASSETS**  
**COMPONENT UNITS**

June 30, 2012  
(Expressed in Thousands)

	Finance Authority of Maine	Maine Community College System	Maine Health and Higher Educational Facilities Authority	Maine Municipal Bond Bank
<b>Assets</b>				
Current Assets:				
Equity in Treasurer's Cash Pool	\$ 19,667	\$ 14,880	\$ 3,567	\$ -
Cash and Cash Equivalents	5,500	4,214	4,414	64
Investments	47,184	36,240	34,531	19,103
Restricted Assets:				
Restricted Deposits and Investments	-	-	-	-
Inventories	-	1,321	-	-
Receivables, Net of Allowance for Uncollectibles:				
Loans Receivable	-	-	55,390	-
Notes Receivable	-	-	-	-
Other Receivables	692	11,790	43	877
Due from Other Governments	275	-	-	142,457
Due from Primary Government	-	1,142	-	-
Loans Receivable from Primary Government	-	-	-	24,086
Other Current Assets	1,908	2,524	845	30,183
Total Current Assets	75,226	72,111	98,790	216,770
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	8,090	6,120	1,467	-
Assets Held in Trust	-	-	-	-
Restricted Assets:				
Restricted Deposits and Investments	-	1,614	154,952	362,393
Investments	-	12,548	-	-
Receivables, Net of Current Portion:				
Loans Receivable	-	-	1,089,721	-
Notes Receivable	25,127	-	-	-
Other Receivables	-	4,350	206	-
Due from Other Governments	-	-	-	1,416,602
Due from Primary Government	-	-	-	-
Loans Receivable from Primary Government	-	-	-	304,045
Post-Employment Benefit Asset	-	9,783	-	-
Capital Assets - Net of Depreciation	1,798	151,201	-	667
Other Noncurrent Assets	-	227	-	1,495
Total Noncurrent Assets	35,015	185,843	1,246,346	2,085,202
Total Assets	110,241	257,954	1,345,136	2,301,972
<b>Liabilities</b>				
Current Liabilities:				
Accounts Payable	1,311	4,290	84	516
Accrued Payroll	-	-	-	-
Compensated Absences	-	1,905	-	-
Due to Other Governments	-	-	-	2,627
Due to Primary Government	3,000	-	-	45,547
Amounts Held under State & Federal Loan Programs	-	-	-	48,423
Undistributed Grants and Administrative Funds	10,489	-	-	204
Allowances for Losses on Insured Commercial Loans	12,235	-	-	-
Bonds Payable	806	-	55,450	134,609
Notes Payable	-	600	-	-
Obligations under Capital Leases	-	-	-	-
Accrued Interest Payable	-	-	24,278	13,393
Deferred Revenue	1,311	1,208	2,621	82
Other Current Liabilities	3	8,722	-	-
Total Current Liabilities	29,155	16,725	82,433	245,401
Long-Term Liabilities:				
Due to Other Governments	-	-	319	838
Amounts Held under State & Federal Loan Programs	44,017	-	-	-
Bonds Payable	707	-	1,208,015	1,436,408
Notes Payable	-	23,973	-	-
Obligations under Capital Leases	-	2,180	-	-
Deferred Revenue	-	-	-	-
Other Noncurrent Liabilities	-	-	-	-
Total Long-Term Liabilities	44,724	26,153	1,208,334	1,437,246
Total Liabilities	73,879	42,878	1,290,767	1,682,647
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	1,798	126,289	-	667
Restricted	16,576	45,500	33,637	539,552
Unrestricted	17,988	43,287	20,732	79,106
Total Net Assets	\$ 36,362	\$ 215,076	\$ 54,369	\$ 619,325

The accompanying notes are an integral part of the financial statements.

Maine State Housing Authority	Maine Turnpike Authority	University of Maine System	Non-Major Component Units	Totals
\$ -	\$ -	\$ 29,782	\$ 1,004	\$ 68,900
1,128	6,068	1,365	88,256	111,009
276,221	-	205,945	5,383	624,607
-	27,367	-	17,206	44,573
-	1,462	-	697	3,480
31,089	-	-	18,649	105,128
2	-	63	3,556	3,621
25,932	3,554	43,363	9,735	95,986
7,797	-	11,895	3,279	165,703
-	-	9,713	5,359	16,214
-	-	-	-	24,086
-	1,174	5,106	1,249	42,989
342,169	39,625	307,232	154,373	1,306,296
-	-	12,250	413	28,340
-	-	-	2	2
-	42,332	10,191	16,098	587,580
145,326	-	312,863	18,004	488,741
1,376,149	-	-	123,924	2,589,794
335	-	40,140	4,179	69,781
2,214	1	8,114	3,047	17,932
-	-	-	-	1,416,602
-	-	1,359	128	1,487
-	-	-	-	304,045
-	-	-	-	9,783
2,810	472,125	683,862	231,772	1,544,235
35,713	22,309	2,052	2,120	63,916
1,562,547	536,767	1,070,831	399,687	7,122,238
1,904,716	576,392	1,378,063	554,060	8,428,534
56,254	8,308	18,052	16,873	105,688
-	3,274	-	287	3,561
-	-	-	279	2,184
256	-	-	830	3,713
-	-	-	116	48,663
-	-	-	-	48,423
-	-	-	-	10,693
-	-	-	-	12,235
9,905	13,855	10,331	7,769	232,725
-	-	-	869	1,469
-	-	339	11	350
7,537	-	-	691	45,899
4,216	6,030	12,300	28,026	55,794
-	9,970	38,469	671	57,835
78,168	41,437	79,491	56,422	629,232
1,963	-	-	1,710	4,830
-	-	-	-	44,017
1,444,805	383,201	180,286	170,543	4,823,965
-	-	-	1,189	25,162
-	-	3,754	14	5,948
27,918	-	-	3,397	31,315
29,649	10,889	98,099	105	138,742
1,504,335	394,090	282,139	176,958	5,073,979
1,582,503	435,527	361,630	233,380	5,703,211
2,810	100,640	500,595	215,801	948,600
305,877	31,945	329,367	69,495	1,371,949
13,526	8,280	186,471	35,384	404,774
\$ 322,213	\$ 140,865	\$ 1,016,433	\$ 320,680	\$ 2,725,323

# STATE OF MAINE

## STATEMENT OF ACTIVITIES

### COMPONENT UNITS

Fiscal Year Ended June 30, 2012  
(Expressed in Thousands)

	Finance Authority of Maine	Maine Community College System	Maine Health and Higher Educational Facilities Authority	Maine Municipal Bond Bank
<b>Expenses</b>	\$ 37,575	\$ 127,768	\$ 53,443	\$ 81,049
<b>Program Revenues</b>				
Charges for Services	12,644	16,672	49,411	65,370
Program Investment Income	308	791	8,944	17,411
Operating Grants and Contributions	22,044	63,151	-	494
Capital Grants and Contributions	-	31,098	-	27,393
	<u>(2,579)</u>	<u>(16,056)</u>	<u>4,912</u>	<u>29,619</u>
Net Revenue (Expense)				
<b>General Revenues</b>				
Unrestricted Investment Earnings	518	1,143	72	66
Non-program Specific Grants, Contributions and Appropriations	-	55,638	-	-
Miscellaneous Income	42	1,471	139	1,179
Gain (Loss) on Assets Held for Sale	-	-	-	-
	<u>560</u>	<u>58,252</u>	<u>211</u>	<u>1,245</u>
Total General Revenues				
Change in Net Assets	(2,019)	42,196	5,123	30,864
Net Assets, Beginning of the Year (as restated)	<u>38,381</u>	<u>172,880</u>	<u>49,246</u>	<u>588,461</u>
Net Assets, End of Year	<u>\$ 36,362</u>	<u>\$ 215,076</u>	<u>\$ 54,369</u>	<u>\$ 619,325</u>

The accompanying notes are an integral part of the financial statements.

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<b>Maine State Housing Authority</b>	<b>Maine Turnpike Authority</b>	<b>University of Maine System</b>	<b>Non-Major Component Units</b>	<b>Totals</b>
\$ 267,551	\$ 89,562	\$ 684,277	\$ 156,836	\$1,498,061
81,488	107,543	298,670	41,501	673,299
6,152	-	-	102	33,708
183,584	-	177,297	74,322	520,892
-	-	19,695	144,647	222,833
<u>3,673</u>	<u>17,981</u>	<u>(188,615)</u>	<u>103,736</u>	<u>(47,329)</u>
9	(201)	4,596	429	6,632
-	-	218,357	17,770	291,765
-	-	-	741	3,572
<u>-</u>	<u>-</u>	<u>(34)</u>	<u>6</u>	<u>(28)</u>
<u>9</u>	<u>(201)</u>	<u>222,919</u>	<u>18,946</u>	<u>301,941</u>
3,682	17,780	34,304	122,682	254,612
<u>318,531</u>	<u>123,085</u>	<u>982,129</u>	<u>197,998</u>	<u>2,470,711</u>
<u>\$ 322,213</u>	<u>\$ 140,865</u>	<u>\$1,016,433</u>	<u>\$ 320,680</u>	<u>\$2,725,323</u>



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# **NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the State of Maine (the State) have been prepared under guidelines established by generally accepted accounting principles (GAAP) as mandated by the Governmental Accounting Standards Board (GASB).

Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements.

**A. REPORTING ENTITY**

For financial reporting purposes, the State of Maine's reporting entity includes the "primary government" and its "component units." The primary government includes all funds, organizations, agencies, boards, commissions and authorities. Component units are legally separate organizations for which the State is financially accountable. Component units can also be legally separate, tax exempt entities that raise and hold economic resources for the direct benefit of a governmental unit.

GASB Statement No. 14, *The Financial Reporting Entity*, defines financial accountability. The State is financially accountable for those entities for which it appoints a voting majority of the governing board and either is able to impose its will on that entity or the entity may provide specific financial benefits to, or impose specific financial burdens on, the primary government. Entities for which the State does not appoint a voting majority of the governing board may be included if the organization is fiscally dependent on the primary government or if the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statement No. 14*, establishes criteria for legally separate, tax-exempt entities that should be reported as component units if all of the criteria are met. Although the State has not identified any organizations that would qualify as direct component units of the State by meeting all of the criteria of GASB Statement No. 39, a few of the component units described later in this note have significant foundations that meet the criteria of GASB Statement No. 39.

**Blended Component Units** – Blended component units are entities that are legally separate from the State, but provide services entirely, or almost entirely to the State or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it. The State reports two blended component units.

The Maine Governmental Facilities Authority (MGFA) is a legally separate organization that has its board appointed by the primary government and provides services entirely, or almost entirely, to the State. Its purpose includes assisting in the financing, acquisition, construction, improvement, reconstruction, and equipping of additions to structures designed for use as a court facility, State office or State activity space. In their separately issued financial statements, MGFA records a lease receivable from the State and a liability for bonds issued. However, in accordance with GASBS 14, capital leases that exist between the State and MGFA are not recorded as leases in this report. The assets associated with these leases are reported in the government-wide statements along with the related debt. The corresponding debt service activity is recorded in the Governmental Funds. MGFA financial activity associated with servicing the debt is reported in an internal service fund. Therefore, the State reports MGFA's balances and transactions as though they were part of the primary government, using the blending method.

Child Development Services (CDS) is a legally separate organization, which ensures the provision of child find activities, early intervention services and free, appropriate public education services to eligible children. Prior to

fiscal year 2012, CDS had been reported as a non-major discrete component unit. Legislation enacted on April 13, 2012, Public Law Chapter 655, Part OO-4, altered the State's management and operational responsibility with this component unit. The State's Education Commissioner now appoints and supervises the CDS director. Therefore, the State reports CDS balances and transactions as though they were a non-major special revenue fund.

**Discrete Component Units** - Discrete component units are entities that are legally separate from the State but are either accountable to the State or related so closely to the State that exclusion would cause the State's financial statements to be misleading or incomplete. Component units that are not material to the State's financial statements have been excluded. The column labeled "Component Units" emphasizes these organizations' separateness from the State's primary government.

The State is able to impose its will upon these discretely presented component units:

*The Maine Community College System* is Maine's primary provider of post-secondary technical education leading to a certificate, diploma, or associate degree. The combined financial statements of the System include the activity of seven colleges, the central administrative office, the Center for Career Development (including the Maine Career Advantage and Maine Quality Centers programs), and its component unit, Maine Community College Educational Foundations.

*The Maine Turnpike Authority* (MTA) constructs, maintains and operates a turnpike at such a location approved by the State Highway Commission and to issue turnpike revenue bonds payable solely from revenues of the Authority. The Governor appoints MTA's board of directors. As a result of substantive legislative changes made in 2011, the State's relationship to MTA changed. The former related organization is now reported as a discrete component unit. See Note 3. The Authority's fiscal year ends December 31.

*The University of Maine System* is the State University governed by a single Board of Trustees appointed by the Governor. The combined financial statements of the System include the activity of seven universities, eleven centers, the central administrative office, and its component units, which include several foundations and alumni associations that raise funds on the System's behalf.

There is a financial burden/benefit relationship between these entities and the State:

*The Finance Authority of Maine* provides commercial financing and loan guarantees to Maine businesses and educational financing to Maine students and their parents. The Authority also provides financial and other services for the Potato Marketing Improvement Fund Board, the Nutrient Management Fund Board, the Northern Maine Transmission Corporation, the Adaptive Equipment Loan Program Fund Board, the Fund Insurance Review Board, the Agricultural Marketing Loan Fund Board, and the Occupational Safety Program Fund Board. Additionally, the Authority administers the Maine College Savings Program. Net assets of the program, NextGen College Investing Plan, are included in the State's fiduciary fund financial statements. The Governor appoints the fifteen voting members of the Authority.

*Maine Health & Higher Educational Facilities Authority (MHHEFA)* – MHHEFA assists Maine health care institutions and institutions of higher education in undertaking projects involving the acquisition, construction, improvement, reconstruction and equipping of their facilities and the refinancing of existing indebtedness. The Authority, pursuant to the Student Loan Corporations Act of 1983, may also finance student loan programs of institutions of higher education. MHHEFA consists of twelve members, four of whom serve *ex officio* and must be the Superintendent of Financial Institutions, the Commissioner of Health and Human Services, the Commissioner of Education, and the Treasurer of State. The remaining eight members must be residents of the State appointed by the Governor.

*The Maine Municipal Bond Bank* issues bonds on behalf of counties, cities, towns, school administrative districts, community school districts, or other quasi-municipal corporations or eligible borrowers as designated by the

Legislature (the “governmental units”) within the State. The Governor appoints three residents of the State to the five-member Board of Commissioners. The remaining two members include the Treasurer of State and Superintendent of Financial Institutions who serve as commissioners, *ex officio*.

*Maine State Housing Authority* issues bonds to purchase notes and mortgages on residential units, both single and multi-family, for the purpose of providing housing for persons and families of low income in the State. The Authority also acts as an agent for the State in administering federal weatherization, energy conservation, fuel assistance and homeless grant programs and collecting and disbursing federal rent subsidies for low income housing. The Governor appoints five of the Authority’s seven commissioners. The remaining two commissioners are the Treasurer of State and the Director of the Maine State Housing Authority, both of whom serve *ex officio*. The Authority’s fiscal year ends on December 31.

The State’s financial statements also include a fiduciary component unit:

*Maine Public Employees Retirement System* administers an agent-multiple employer public employee retirement system. It provides pension, death, and disability benefits to its members, which include employees of the State, some public school employees, employees of approximately 293 local municipalities and other public entities in Maine. The Governor appoints four of the Board’s eight voting trustees. A fifth trustee is either the Treasurer of State or the Deputy Treasurer of State.

Complete financial statements of the major component units can be obtained directly from their respective administrative offices by writing to:

Finance Authority of Maine 5 Community Dr. PO Box 949 Augusta, ME 04332	Maine Health and Higher Ed. Facilities Authority PO Box 2268 Augusta, ME 04338	Maine Public Employees Retirement System 46 State House Station Augusta, ME 04333	Maine Turnpike Authority 2360 Congress Street Portland, ME 04102
Maine Community College System 323 State Street Augusta, ME 04330	Maine Municipal Bond Bank PO Box 2268 Augusta, ME 04338	Maine State Housing Authority 89 State House Station 353 Water Street Augusta, ME 04330	University of Maine System 16 Central Street Bangor, ME 04401

### Related Organizations

Officials of the State’s primary government appoint a voting majority of the governing board of the Maine Veteran’s Home. The primary government has no material accountability for this organization beyond making board appointments.

## B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

### Government-Wide Financial Statements

The Statement of Net Assets and Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The *Statement of Net Assets* presents the reporting entity’s non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

**Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

**Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports \$830.4 million of restricted net assets, of which \$112.0 million is restricted by enabling legislation.

**Unrestricted net assets** consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenues.

#### **Fund Financial Statements**

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column.

### **C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

#### **Measurement Focus and Basis of Accounting**

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the State's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or prior to November 30, 1989, except those that conflict with a GASB pronouncement. The FASB pronouncements issued after November 30, 1989, are not followed in the preparation of the accompanying financial statements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the governmental funds when they become susceptible to accrual, generally when they become both measurable and available. "Available" means earned and collected or expected to be collected within the current period or soon enough thereafter to pay liabilities of the

current period. For this purpose, the State generally considers revenues available if they are collected within 60 days of the end of the fiscal year.

Significant revenues susceptible to accrual include: income taxes, sales and use taxes, and other taxes; federal grants; federal reimbursements; and other reimbursements for use of materials and services. Revenues from other sources are recognized when received because they are generally not measurable until received in cash. Property taxes are recognized as revenue in the year for which they are levied, provided the “available” criterion is met.

The State Tax Assessor levies taxes on properties located in the unorganized territory of Maine by August 1 of each year, and on telecommunications personal properties statewide by May 30 of each year. Unorganized territory property taxes are due on October 1 and telecommunications personal property taxes are due on August 15. Formal collection procedures begin on November 1, and unpaid property taxes become a lien no later than March 15 of the fiscal year for which they are levied.

Expenditures are generally recorded when a liability is incurred. However, expenditures related to claims and judgments, debt service and compensated absences are recorded only when payment is due and payable.

#### **Financial Statement Presentation**

The State reports the following major governmental funds:

The *General Fund* is the State’s primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

The *Highway Fund* accounts for the regulation, construction and maintenance of State highways and bridges and is funded by motor fuel taxes, motor vehicle license and registration fees, special State appropriations, and other charges.

The *Federal Fund* accounts for grants and other financial assistance received from the federal government, including federal block grants, that are legally restricted to expenditures for purposes specified in the grant awards or agreements.

The *Other Special Revenue Fund* accounts for specific revenue sources that are legally restricted to expenditures for specified purposes, and the related current liabilities, including some major capital projects that are not accounted for in the Highway and Federal Funds. Examples of the most significant types of revenue sources include: Fund for a Healthy Maine (tobacco settlement revenue), State municipal revenue sharing, hospital and service provider taxes, and oil transfer fees.

The State reports the following major enterprise fund:

The *Maine Employment Security Fund* receives contributions from employers and provides unemployment compensation benefits to eligible unemployed workers.

Additionally, the State reports the following fund types:

#### **Governmental Fund Types:**

*Special Revenue Funds* include operating fund activities financed by specific revenue sources that are legally restricted for specified purposes. An example is funds for acquisition of public reserved lands.

*Capital Projects Funds* account for the acquisition or construction of major capital assets and other programs financed by bond proceeds.

*Permanent Trust Funds* report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizenry. An example is the Baxter State Park Fund.

**Proprietary Fund Types:**

*Enterprise Funds* report the activities for which fees are charged to external users for goods or services, such as the unemployment compensation program, lottery operations and transportation services.

*Internal Service Funds* provide goods or services primarily to other agencies or funds of the State, rather than to the general public. These goods and services include printing and mailing services, supplies warehousing, information technology, fleet management, risk management, health-related benefits, and financing for acquisition and construction of governmental facilities.

**Fiduciary Fund Types:**

*Pension (and Other Employee Benefit) Trust Funds* report resources that are required to be held in trust for members and beneficiaries of the State's pension, death and disability benefit plans. These resources are managed by the Maine Public Employees Retirement System (MPERS). The fund also reports resources that are required to be held in trust for members and beneficiaries of the State's retiree healthcare benefits. The investment trust, managed by the Maine Public Employees Retirement System, holds the long-term investments of the trust. The trustees of the Other Employee Benefit Trust Fund are the State Controller and State Treasurer.

*Private Purpose Trust Funds* report resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments. Examples include Abandoned Property, Public Reserved Lands, Permanent School funds and NextGen College Investing Plan.

*Agency Funds* report assets and liabilities for deposits and investments entrusted to the State as an agent for others. Examples include amounts held for payroll withholdings, inmate and student guardianship accounts.

**D. FISCAL YEAR-ENDS**

All funds and discretely presented major component units are reported using fiscal years which end on June 30, except for the Maine Educational Loan Authority, Maine State Housing Authority and Maine Turnpike Authority, which utilize December 31 year-ends.

**E. ASSETS, LIABILITIES, AND NET ASSETS/FUND BALANCE****Equity in Treasurer's Cash Pool**

The State pools cash and cash equivalents for a variety of State agencies and public sector entities. The pooled balances are reported at fair value. Interest earned on pooled cash is allocated to the various funds, generally based on their average equity balances. The Treasurer's Cash Pool has the general characteristics of a demand deposit account and is comprised primarily of prime commercial paper, repurchase agreements, U.S. Treasury Bills, U.S. Treasury Notes, and other U.S. Agency Obligations, certificates of deposit, and corporate bonds.

For component units that participate in the cash pool, equity is shown at fair value.

**Cash and Cash Equivalents**

Cash equivalents consist of short-term, highly liquid investments that are both readily convertible to known amounts of cash and are near maturity. On the Statement of Cash Flows, the amount reported as "Cash and Cash Equivalents" is equal to the total of the amounts reported on the Statement of Net Assets as "Equity in Treasurer's

Cash Pool,” “Cash and Cash Equivalents,” “Cash with Fiscal Agent,” “Restricted Equity in Treasurer’s Cash Pool,” and “Restricted Deposits and Investments.”

**Cash with Fiscal Agent**

Cash with Fiscal Agent in Governmental Funds represents cash that will be used for debt service on bonds, the unspent proceeds of bonds and Certificates of Participation, as well as unspent funds of the Maine Biological Research Board being held by the State.

Cash with Fiscal Agent in Proprietary Funds represents proceeds of Certificates of Participation and other financing arrangements that have not been spent.

Other investments of the State are carried at fair value. Donated investments are stated at fair value at the date of donation.

**Investments Held on Behalf of Others**

These assets include amounts held by the State in a fiduciary capacity, acting as either a trustee or an agent for individuals, organizations or other funds. Generally, these investments are reported at fair value or at amortized cost which approximates fair value. The State also holds \$116 million of Workers’ Compensation, \$51 million of Bureau of Insurance, and \$26 million of Maine Department of Labor surety bonds and letters of credit that are not reflected on the financial statements.

**Restricted Deposits and Investments**

Restricted deposits and investments include: unemployment tax receipts deposited with the United States Treasury that are drawn down to pay unemployment benefits; cash and investments of the Maine Governmental Facilities Authority, a blended component unit that has been independently audited; unspent bond proceeds, and funds invested in Certificates of Deposit and other investments at various financial institutions within the State. The financial institutions lend these deposits and investments to local commercial and agricultural enterprises to foster economic growth in Maine.

**Inventories**

The costs of materials and supplies of the Governmental Funds are reported as expenditures when purchased. Undistributed vaccines and food commodities are reported as inventory and deferred revenue in the Federal Fund. Revenues and corresponding expenditures are recognized when food stamps are used (EBT cards), and when vaccines and food commodities are issued. Inventories of materials and supplies in the Proprietary Funds are determined by physical counts and by perpetual inventory systems. Proprietary Fund inventories are stated at cost or average cost.

Inventories included in the component unit column are stated at the lower of cost or market (using the first-in, first-out method).

**Receivables**

Receivables consist primarily of amounts due to the State from taxpayers and service providers. Also included in receivables are amounts due but not yet remitted to the State from lottery sales by agents. Loans receivable for the primary government represent low interest financing arrangements to construct and modernize agricultural storage facilities and local commercial enterprises, as well as Department of Transportation loans to local governments. Receivables in the component units’ column arise in the normal course of business. Receivables are stated net of estimated allowances for uncollectible amounts that are determined based upon past collection experience and aging of the accounts.

**Interfund Transactions and Balances**

Numerous transactions are made between funds to finance operations, provide services, and acquire or construct assets. To the extent that transactions between funds were not completed as of June 30, interfund receivables and

payables have been recorded in the fund financial statements. Interfund receivables and payables have been eliminated from the Statement of Net Assets.

Long-term loans made by one fund to another are classified as “Working Capital Advances Receivable” and “Working Capital Advances Payable.” In the fund financial statements, advances receivable are offset by nonspendable fund balance designations indicating that the long-term loans do not constitute expendable financial resources.

**Due from/to Primary Government/Component Units**

Numerous transactions are made between the primary government and component units to finance operations, provide services, acquire or construct assets, or repay bonds. To the extent that transactions between funds were not completed as of June 30, “Due from Primary Government” and “Due to Component Unit” receivables and payables have been recorded. Two component units have December 31 year ends, therefore the “due to” and “due from” amounts may differ.

**Due from/to Other Governments**

Due from/to Other Governments represents amounts receivable from or payable to municipalities or the federal government. Due from Other Governments represents primarily federal grants receivable for Medicaid claims, other health and human services programs, and federal grants receivable for transportation-related expenditures. Due from Other Governments in the component units’ column represents amounts receivable for grants, bond repayment and retirement benefits. Due to Other Governments primarily consist of amounts owed to municipalities for Municipal Revenue Sharing and the federal government for Medicaid cost recoveries from providers.

**Capital Assets**

Capital assets, which include land, buildings, equipment and infrastructure assets (e.g., roads, bridges, ramps and similar items), are reported in the government-wide statements and applicable fund financial statements. Capital assets that are used for governmental activities are only reported in the government-wide statements. The State capitalizes governmental fund buildings valued at \$1 million or more and proprietary fund buildings valued at \$100 thousand or more. Governmental fund equipment is capitalized at \$10 thousand or more and proprietary fund equipment is capitalized \$5 thousand or more. Governmental and proprietary fund software is capitalized at \$1 million or more. All land, regardless of value, is capitalized. Capital assets are recorded at cost or, if donated, at estimated fair market value at date of acquisition. In some instances, capital assets historical cost were not available. The costs of these assets at the date of acquisitions have been estimated.

In the government-wide statements, most capital assets are depreciated on a straight-line basis over the assets’ estimated useful lives, which are 10-40 years for software, buildings and improvements, and 2-25 years for equipment. The State uses the modified approach for reporting its significant infrastructure assets. As long as the State maintains and preserves its infrastructure assets at pre-determined condition levels, maintenance costs are expensed and depreciation is not reported. This approach is discussed further in the Required Supplementary Information.

Capital assets of component units are capitalized upon purchase and depreciated over their estimated useful lives. Interest incurred during construction is capitalized. The estimated useful lives of fixed assets are 5–60 years for non-road structures and improvements and 3–15 years for equipment, furniture, fixtures and vehicles. Component units reflect infrastructure in improvements other than buildings and record depreciation expense on them. The Maine Turnpike Authority (MTA) uses the modified approach for reporting its significant infrastructure assets. As long as MTA maintains and preserves its infrastructure assets at pre-determined condition levels, maintenance costs are expensed and depreciation is not reported.

**Accounts Payable**

Accounts payable represent the gross amount of expenditures or expenses incurred as a result of normal operations, but for which no actual payment has yet been issued to vendors/providers. Incurred but not paid (IBNP) Medicaid claims settlements are actuarially estimated. The IBNP estimate recorded at June 30, 2012 is \$227 million. The actuarial range of reasonable estimate is a low of \$227 million to a high of \$247 million.

**Tax Refunds Payable**

The amount of collected or accrued tax revenues that will be refunded is estimated and accrued as a General Fund liability.

**Claims Payable**

Claims payable represent workers' compensation, retiree health, employee health, and other claims payable, including actual claims submitted and actuarially determined claims incurred but not reported. The actuarially determined claims liability is discounted and presented at net present value.

**Compensated Employee Absences**

In the government-wide statements and proprietary fund financial statements, compensated absences are recorded as a long-term liability as required by GASB. In the governmental fund financial statements, vested or accumulated leave is reported as an expenditure and fund liability when incurred upon retirement, termination or death. Sick and vacation payments to terminated employees as of June 30, 2012 but paid after the fiscal year end is also reported in the funds. In the discretely presented component units, employees' accumulated compensated absences are recorded as an expense and liability as the benefits accrue.

**Deferred Revenue**

In the government-wide statements and proprietary fund financial statements, deferred revenue is recognized when cash, receivables, or other assets are received prior to their being earned. In the governmental fund statements, amounts recorded as receivable that do not meet the "availability" criterion for recognition as revenue in the current period are classified as deferred revenue. Resources received by the government before it has a legal claim to them are also included as deferred revenue. Deferred revenue reported in the General Fund relates to sales and income taxes. Deferred revenue in the Federal Fund consists primarily of food commodities not yet issued. Deferred revenue in the Alcoholic Beverages Fund comprises the proceeds from the sale of the State's liquor operations.

**Loans Payable to Component Unit**

In the Statement of Net Assets, the amount of bond proceeds received by a component unit for unmatured GARVEE and TransCap bond proceeds is called "Loans Payable to Component Unit." The offsetting receivables are classified as "Loans Receivable from Primary Government."

**Long-Term Obligations**

In the government-wide statements and proprietary fund financial statements, long-term debt and other long-term obligations are recorded as liabilities.

In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources.

**Net Assets/Fund Balances**

The difference between fund assets and liabilities is "Net Assets" on the government-wide, proprietary, and fiduciary fund statements, and "Fund Balances" on governmental fund statements.

**Fund Balance Restrictions**

Fund balances for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned or unassigned.

The State reported the following fund balance restrictions:

*Nonspendable Fund Balance* - indicates items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless those proceeds are restricted, committed or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

*Restricted Fund Balances* - include balances that are legally restricted for specific purposes due to constraints that are either externally imposed by creditors, grantors, contributors, or imposed by law through a constitutional provision or enabling legislation.

*Committed Fund Balances* - indicates assets can be used only for specific purposes pursuant to constraints imposed by a formal action of the Maine Legislature, the State's highest level of decision-making authority. This formal action is the passage of law by the legislature, creating, modifying, or rescinding an appropriation.

*Assigned Fund Balances* - include amounts that are constrained by the State's intent to be used for a specific purpose, but are neither restricted or committed. Legislative assignments include formal actions passed into law that lapse. Maine statute also set forth powers and duties of management. Assignments also include decisions made by management, including encumbrances. For governmental funds, other than the General Fund, this is the residual amount within the fund that is not restricted or committed.

*Unassigned Fund Balance* - is the residual amount of the General Fund not included in the four categories described above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

**F. REVENUES AND EXPENDITURES/EXPENSES**

In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (e.g., governmental support & operations, education, health & human services, etc.). Additionally, revenues are classified between program and general revenues. Program revenues include: charges to customers or applicants for goods, services, or privileges provided; operating grants and contributions; and capital grants and contributions. Internally dedicated resources are reported as general revenues, rather than as program revenue. General revenues include all taxes. Certain indirect costs are included in the program expenses reported for individual functions.

The State's policy is that restricted amounts are spent first when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Within unrestricted fund balance, the State's policy is that committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

In the governmental fund financial statements, expenditures are reported by function. Capital outlay expenditures for real property or infrastructure (e.g. highways) are included with expenditures by function.

Revenues and expenses of proprietary funds are classified as operating or nonoperating and are subclassified by object (e.g. general operations and depreciation). Operating revenues and expenses generally result from

providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating, capital contributions, transfers or special items.

**NOTE 2 – BUDGETING AND BUDGETARY CONTROL, AND LEGAL COMPLIANCE****Appropriation Limits**

The total General Fund appropriation for each fiscal year of the biennium in the Governor's budget submission to the Legislature may not exceed the General Fund appropriation of the previous fiscal year multiplied by one plus the average real personal income growth rate, as defined in Title 5 Maine Revised Statutes Annotated (MRSA) § 1665, subsection 1, plus the average forecasted inflation rate. "Average forecasted inflation rate" means the average forecasted change in the Consumer Price Index underlying the revenue projections developed by the Revenue Forecasting Committee.

This appropriation limitation may be exceeded only by the amount of the additional costs or the lost federal revenue from the following exceptional circumstances: unfunded or under-funded new federal mandates; losses in federal revenues or other revenue sources; citizens' initiatives or referenda that require increased State spending; court orders or decrees that require additional State resources to comply with the orders or decrees; and sudden or significant increases in demand for existing State services that are not the result of legislative changes that increased eligibility or increased benefits.

The Governor may designate exceptional circumstances that are not explicitly defined, but meet the intent of, this statute. "Exceptional circumstances" means an unforeseen condition or conditions over which the Governor and the Legislature have little or no control. Exceptional circumstances do not apply to new programs or program expansions that go beyond existing program criteria and operation.

**Budget Stabilization Fund**

The Maine Budget Stabilization Fund, a fund designation established under Title 5 MRSA C. 142, is included in the negative \$356 million unassigned General Fund fund balance. Amounts in the stabilization fund may be expended only to offset a General Fund revenue shortfall. The Governor may also allocate funds for payment of death benefits for law enforcement officers, firefighters and emergency medical services personnel.

Balances in the fund do not lapse, but carry forward each year. Money in the fund may be invested with any earnings credited to the fund except when the fund is at its statutory cap. Per Public Law 2011, Chapter 380, Part RRR \$4.0 million was transferred from General Fund unappropriated surplus to the Budget Stabilization Fund. Per Public Law 2011, Chapter 380, Part JJJJ, \$29.7 million was transferred from the Budget Stabilization Fund to the General Fund unappropriated surplus. Additionally, \$1.2 million was transferred to general purpose aid for local schools within the Department of Education in accordance with Title 5 MRSA C.142 Section 1532.

The statutory cap for the fund is 12 percent of the total General Fund revenue received in the immediately preceding fiscal year. At the close of the fiscal year, the cap is based on the revenue received in the fiscal year being closed. Based on fiscal year 2012 actual General Fund revenue, the statutory cap at the close of fiscal year 2012 and during fiscal year 2012 was \$361.9 million. At the close of fiscal year 2012, the balance of the Maine Budget Stabilization Fund was \$44.8 million. No reductions to the Maine Budget Stabilization Fund balance are required when it exceeds the balance of the statutory cap as a result of a decline of General Fund revenue.

**Budget Stabilization Fund Activity**

(Expressed in Thousands)

Balance, beginning of year	\$ 71,414
Decrease in fund balance	(26,605)
Balance, end of year	<u>\$ 44,809</u>

**Budget and Budgetary Expenditures**

The gross unified budget bills and budget document encompass resources from the General Fund, Highway Fund, Federal Expenditures Fund, Federal Block Grant Fund, Other Special Revenue Fund, internal service funds and enterprise funds. Separate gross unified budget bills must be submitted for the General Fund and the Highway Fund. All funds except trust and agency funds, bond funds and costs of goods sold expenditures in internal service funds and enterprise funds are subject to legislative allocation. The biennial budget sets forth proposed expenditures for the administration, operation and maintenance of the departments and agencies of the State Government; all interest and debt redemption charges during each fiscal year and all expenditures for capital projects to be undertaken and executed during each fiscal year. Within this structure, budgetary control by agency is maintained at the program and line category level. The State Budget Officer and the Governor must approve budget revisions during the year, reflecting program changes or intradepartmental administrative transfers.

Except in specific instances, only the Legislature may transfer appropriations between departments. Changes in appropriation, allocation, or funding for new programs are presented to the Legislature as a supplemental budgets or separate pieces of legislation. For the year ended June 30, 2012, the Legislature increased appropriations to the General Fund by \$86.6 million.

Actual expenditures did not exceed legislatively authorized appropriations at the Department level; therefore, the State complied with all related budget laws at the legal level.

**Governmental Fund Balances – Restricted, Committed and Assigned**

The State's fund balances represent: (1) restricted purposes, which include balances legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; (2) committed purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislature; (3) assigned purposes, which includes balances that are constrained by government's intent to be used for specific purposes, but are neither restricted or committed. A summary of the nature and purpose of these fund balance types at June 30, 2012 are as follows:

**Governmental Fund Balances**  
(Expressed in Thousands)

	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>
<b>General Fund:</b>			
Natural Resources Development & Protection	\$ 2,989	\$ -	\$ -
Total	<u>\$ 2,989</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Highway Fund:</b>			
Transportation Safety & Development	\$ 31,943	\$ -	\$ -
Justice and Protection	3,743	-	-
Governmental Support & Operations	375	-	-
Natural Resources Development & Protection	3	-	-
Total	<u>\$ 36,064</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Federal Fund:</b>			
Governmental Support & Operations	\$ 5,108	\$ -	\$ -
Health and Human Services	9,165	-	-
Justice and Protection	-	-	-
Natural Resources Development & Protection	-	-	-
Total	<u>\$ 14,273</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Other Special Revenue Fund:</b>			
Arts, Heritage & Cultural Enrichment	\$ 160	\$ 10	\$ 4
Business Licensing & Regulation	68,388	991	371
Economic Development & Workforce Training	6,927	4,417	1,174
Education	903	20	7
Governmental Support & Operations	85,421	17,407	35
Health and Human Services	21,301	10,597	9,650
Justice and Protection	3,992	1,719	765
Natural Resources Development & Protection	40,112	3,133	430
Transportation Safety & Development	164,488	142	53
Total	<u>\$ 391,692</u>	<u>\$ 38,436</u>	<u>\$ 12,489</u>
<b>Other Governmental Funds:</b>			
Capital Projects	\$ 26,735	\$ -	\$ -
Natural Resources Development & Protection	58,814	-	-
Education	75	-	-
Other	158	-	-
Total	<u>\$ 85,782</u>	<u>\$ -</u>	<u>\$ -</u>

**NOTE 3 - ACCOUNTING CHANGES AND RESTATEMENTS****Accounting Changes**

Governmental Accounting Standards Board (GASB) Statement No. 18, Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs became effective for the State for the year ended June 30, 2012 when the State acquired and became responsible for the closure and postclosure monitoring costs of the Dolby Landfills. This Statement established accounting and financial reporting for municipal solid waste landfill (MSWLF) closure and postclosure care costs. As a result of applying this Statement, the State's beginning net assets have been restated. Beginning net assets for Governmental Activities were reduced by \$7.4 million.

During fiscal year 2012, statute changes necessitated that an entity (CDS) that had once been reported as a discretely presented component unit to be reported as a blended component unit of the State. Accordingly, beginning fund balance for the non-major governmental funds decreased by \$4.3 million and beginning net assets for the governmental activities decreased by \$3.7 million.

Additional statute changes required that an entity (Maine Turnpike Authority) that had once been reported as a related party to be reported as a discretely presented component unit of the State. This required that beginning net assets for the component units to be increased by \$123.1 million.

**NOTE 4 - DEFICIT FUND BALANCES/NET ASSETS**

Three internal service funds showed deficit Net Assets for the fiscal year ended June 30, 2012. The Workers' Compensation Fund reported a deficit of \$14.5 million, which reflects accruals for actuarially determined claims payable. The Leased Space Fund had a fund balance deficit of \$3.8 million because rates charged were insufficient to cover expenses incurred. The Postal, Printing & Supply fund reported a deficit of \$1.9 million because expenses are recognized when incurred; however, related revenue is not earned until jobs are satisfactorily completed. All of the deficits mentioned above are expected to be funded by future service charges.

The Alcoholic Beverages Enterprise Fund shows a deficit of \$25 million. During fiscal year 2004, the State of Maine entered into a 10 year contract with a vendor to manage and operate wholesale liquor distribution as the State's agent. The deficit reflects the deferral of license fees that will be amortized over that 10 year period.

The General Fund shows a deficit fund balance of \$349.9 million at June 30, 2012. This deficit is primarily due to the full recognition of the State's share of Medicaid liabilities at fiscal year end, which are funded throughout the year with the aforementioned tax revenue. The federal portion of these liabilities is also fully accrued, with an offsetting receivable from the federal government as allowed under Governmental Accounting Standards Board (GASB) Statement No. 33. Per GASB 33, revenue associated with government mandated non-exchange transactions should be recognized when applicable eligibility requirements have been met and the resources are available. Medicaid is an entitlement program. Therefore, the funds are available when the payments for these liabilities are processed.

The Child Development Services Special Revenue Fund shows a deficit of \$2.2 million. This deficit has accumulated through operating losses dating back to the year ended June 30, 2008.

**NOTE 5 - DEPOSITS AND INVESTMENTS**

Title 5 MRSA § 135 governs the deposit and investment policies of the State of Maine Office of the Treasurer. The Treasurer may deposit State funds, including trust funds of the State, in any of the banking institutions (including trust companies, State or federal savings and loan associations, and mutual savings banks) organized under the laws of this State and any national bank or federal savings and loan association located in the State.

The State follows the practice of pooling cash and cash equivalents for a variety of State agencies and public sector entities. The Treasurer may invest funds that exceed current obligations, with the concurrence of the State Controller or the Commissioner of Administrative and Financial Services and the consent of the Governor.

Approved investments include bonds, notes, certificates of indebtedness, other obligations of the United States that mature not more than 36 months from the date of investment; repurchase agreements secured by obligations of the United States that mature within the succeeding 12 months; prime commercial paper; tax-exempt obligations; corporate bonds rated “AAA” that mature within 36 months from the date of investment; banker’s acceptances; and “no-load” shares of an investment company registered under the Federal Investment Company Act of 1940, whose shares maintain a constant share price. Although authorized to do so, the Treasurer does not participate in the securities loan market.

Investment policies of the permanent trusts are governed by Title 5 MRSA § 138. The Treasurer, with the approval of the Commissioner of Administrative and Financial Services, the Superintendent of Financial Institutions and the Attorney General, shall invest the funds in securities that are legal investments in accordance with Title 9-B MRSA. The investments need not be segregated to the separate trusts, but the identity of each trust must be maintained. The Treasurer may enter into custodial care and servicing contracts or agreements negotiated in accordance with the laws of this State for the handling of funds held in trust.

No amounts exceeding 25 percent of the capital, surplus, and undivided profits of any trust company or national bank or 25 percent of the reserve fund and undivided profits of a mutual savings bank or State or federal savings and loan association, shall be on deposit in any one institution at any one time. This restriction does not apply to deposits subject to immediate withdrawal to meet the payment of any bonded debt or interest or to pay current bills or expenses of the State. Also exempt are deposits secured by the pledge of certain securities as collateral or fully covered by insurance.

With assistance from the Finance Authority of Maine, the Treasurer participates in a restricted deposit program to encourage banks to provide loans at two percent below market rate. The Treasurer may invest up to \$8 million in lending institutions at a two percent lower-than-market rate provided the lenders pass the rate reduction on to the borrowers. \$4 million of this program are earmarked for loans to agricultural enterprises and the other \$4 million are designated for commercial entities.

The Primary Government's Deposits and Investments excluding component units that are fiduciary in nature at June 30, 2012:

**Primary Government Deposits and Investments**  
(Expressed in Thousands)

	<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Private Purpose Trusts</b>	<b>Agency Funds</b>	<b>Total</b>
Equity in Treasurer's Cash Pool	\$ 353,409	\$ 23,464	\$ 1,632	\$ 13,574	\$ 392,079
Cash and Cash Equivalents	2,473	1,901	-	27	4,401
Cash with Fiscal Agent	151,337	-	-	-	151,337
Investments	73,281	-	11,501	-	84,782
Restricted Equity in Treasurer's Cash Pool	29,374	-	-	-	29,374
Restricted Deposits and Investments	3,694	269,597	-	11	273,302
Investments Held on Behalf of Others	-	-	6,013,272	70,180	6,083,452
Other Assets	-	-	-	-	-
Total Primary Government	<u>\$ 613,568</u>	<u>\$ 294,962</u>	<u>\$ 6,026,405</u>	<u>\$ 83,792</u>	<u>\$ 7,018,727</u>

*Interest Rate Risk* – Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. In general, the State holds securities to maturity. All debt securities are reported at full-term.

The following table provides the segmented time distribution of the Primary Government's investments at June 30, 2012:

	Maturities in Years (Expressed in Thousands)						
	<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>11 - 20</u>	<u>More than 20</u>	<u>No Maturity</u>	<u>Fair Value</u>
Governmental and Business-Type Activities, excluding Non-Major Special Revenue and Permanent Funds							
US Instrumentalities	\$ 8,319	\$ 140,310	\$ -	\$ -	\$ -	\$ -	\$ 148,629
US Treasury Notes	-	7,673	-	-	-	-	7,673
Repurchase Agreements	45,742	-	-	-	-	-	45,742
Corporate Notes and Bonds	-	-	-	-	-	-	-
Commercial Paper	-	-	-	-	-	-	-
Certificates of Deposit	473	4,274	-	-	-	-	4,747
Money Market	-	-	-	-	-	-	-
Cash and Cash Equivalents	-	-	-	-	-	207,562	207,562
Unemployment Fund							
Deposits with US Treasury	-	-	-	-	-	269,597	269,597
Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds							
US Instrumentalities	255	5,879	130	232	971	-	7,467
US Treasury Notes	3,069	7,674	4,650	10,913	-	1,400	27,706
Repurchase Agreements	1,712	-	-	-	-	-	1,712
Corporate Notes and Bonds	3,239	3,515	865	197	1,258	5,978	15,052
Other Fixed Income							
Securities	9,514	89	5,643	-	-	-	15,246
Commercial Paper	-	-	-	-	-	-	-
Certificates of Deposit	10,808	14	-	-	-	-	10,822
Money Market	-	-	-	-	-	1,090	1,090
Cash and Cash Equivalents	-	-	-	-	-	23,951	23,951
Equities	-	-	-	-	-	41,511	41,511
Other	-	-	-	-	-	25,611	25,611
	<u>\$ 83,131</u>	<u>\$ 169,428</u>	<u>\$ 11,288</u>	<u>\$ 11,342</u>	<u>\$ 2,229</u>	<u>\$ 576,700</u>	<u>\$ 854,118</u>
NextGen College Investing Plan							6,013,272
Other Assets							-
Cash with Fiscal Agent							151,337
Total Primary Government							<u>\$ 7,018,727</u>

**Credit Risk** – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This credit risk is measured by the credit quality ratings of investments as described by nationally recognized statistical rating organizations. The State's investment policy limits its investments to those with high credit quality made by or with the advice and upon the due diligence of the State's independent investment advisor. The State limits credit risk in its trusts by ensuring that at least 85 percent of the debt securities are rated A or better.

The Primary Government's total investments by credit quality rating as of June 30, 2012 are presented below:

	Standard & Poor's Credit Rating (Expressed in Thousands)							Not Rated	Total
	<u>A1</u>	<u>A</u>	<u>AA</u>	<u>AA+</u>	<u>AAA</u>	<u>BB</u>	<u>BBB</u>		
<i>Governmental and Business-Type Activities, excluding Non-Major Special Revenue and Permanent Funds</i>									
US Instrumentalities	\$ -	\$ -	\$ 148,629	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 148,629
US Treasury Notes	-	-	7,673	-	-	-	-	-	7,673
Corporate Notes and Bonds	-	-	-	-	-	-	-	-	-
Commercial Paper	-	-	-	-	-	-	-	-	-
Money Market	-	-	-	-	-	-	-	-	-
<i>Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds</i>									
US Instrumentalities	-	-	5,528	-	-	-	-	1,939	7,467
US Treasury Notes	-	-	1,133	-	-	-	-	26,574	27,707
Corporate Notes and Bonds	-	852	188	-	39	20	611	13,648	15,358
Commercial Paper	-	-	-	-	-	-	-	-	-
Money Market	-	-	-	-	-	-	-	-	-
Other Fixed Income Securities	-	-	-	-	5,727	-	-	9,519	15,246
Total Primary Government	<u>\$ -</u>	<u>\$852</u>	<u>\$163,151</u>	<u>\$ -</u>	<u>\$ 5,766</u>	<u>\$ 20</u>	<u>\$ 611</u>	<u>\$51,680</u>	<u>\$ 222,080</u>

**Concentration of Credit Risk** – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The State limits concentration of credit risk in its trusts by requiring that no single stock represent more than 10 percent of the total portfolio. There is no concentration of credit risk policy for the Treasurer's Cash Pool. At June 30, 2012, there were no investments that exceeded five percent of the Treasurer's Cash Pool.

**Custodial Credit Risk** - For investments, custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the State will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The State limits its custodial credit risk for the Treasurer's Cash Pool by maintaining a file of the most recent credit rating analysis reports performed for each approved financial institution. The State also requires that all securities be perfected in the name of the State and held in third party safekeeping by a state approved custodian. Of the cash pool's \$6.2 million invested in non-negotiable certificates of deposit, none exceeded the FDIC insured amounts for the institutions at which they were held. The

State does not have a policy regarding custodial credit risk for its trusts. The Percival P. Baxter Trust is held by the counterparty's trust department, but not in the State's name.

The fair value of the trust's investments as of June 30, 2012 was \$58.7 million and was comprised of the following:

U.S. Instrumentalities	\$ 1,232
US Treasury Notes	846
Corporate Notes and Bonds	1,710
Other Fixed Income Securities	9,603
Equities	41,205
Cash and Equivalents	1,135
Other	3,005
Total	<u>\$ 58,736</u>

The State and certain vendors contract with a fiscal intermediary, Clareon, for electronic disbursements from the State to its vendors. During fiscal year 2012 these disbursements, on average, exceeded \$134.1 million per month. The funds in transit are not collateralized and are not held by the State Treasurer. Until the vendor receives payment, the State retains some liability.

#### **MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM**

The Maine Public Employees Retirement System (the System) makes investments in a combination of equities, fixed income securities, infrastructure, private equity, real estate, mutual funds, commingled mutual and index funds, derivative financial instruments, and other investment securities established by the Trustee's investment policy.

*Derivative Securities* – Derivative financial instruments are financial contracts whose value depends on the value of one or more underlying assets, reference rates or financial indices. They include futures, forwards, options, and swap contracts. The System's investments in derivative securities only have nominal exposure to custodial credit risk. Credit risk is managed, in the case of exchange-traded derivatives, by the execution of trades through a clearinghouse and, in the case of over-the-counter transactions, by managers' due diligence assessment and approval of counterparties. Market risk is managed by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and are monitored by the Chief Investment Officer.

Foreign currency forward contracts are used to hedge against the currency risk in the System's foreign equity and fixed income security portfolios. The System's fixed income managers invest in CMOs and Asset-Backed Securities to improve the yield or adjust the duration of the fixed income portfolio. At June 30, 2012, no balances of the System's CMO and Asset-Backed Security holdings were outstanding. The System also invests in swaps. Interest rate swaps are used to adjust interest rate and yield curve exposures and substitute for physical securities.

*Securities Lending* - The System has also entered into agreements for securities lending transactions, which are collateralized in an amount generally valued at 102 percent (105 percent for international securities) of the market value of the securities loaned. All securities and loans can be terminated on demand by either the lender or the borrower.

Cash open collateral is invested in a short-term investment pool, the Core Limited Collateral Section. Cash collateral may also be invested separately in "term loans." At June 30, 2012 all of the collateral for securities lending is subject to custodial credit risk. The System believes that there is no credit risk as defined in GASB

Statement No. 28 and GASB Statement No. 40. The collateral held and the market value of securities on loan for the System as of June 30, 2012 was \$812.2 million and \$792.2 million, respectively.

The following table details the System's derivative investments at June 30, 2012:

(Expressed in Thousands)

	2012 Changes in Fair Value		Fair Value at June 30, 2012 Classification      Amount	Notional
Futures:				
Equity Index Futures Contracts	\$ 1,181	OSIC*	\$ 1,455	\$ 56,417

\*OSIC = Obligations to settle investment contracts

#### NEXTGEN COLLEGE INVESTING PLAN

The Maine College Savings Program Fund (the Fund) doing business as NextGen College Investing Plan (the Program), was established in accordance with Title 20-A MRSA §11473, to encourage the investment of funds to be used for Qualified Higher Education Expenses at institutions of higher education. The Program is designed to comply with the requirements for treatment as a Qualified State Tuition Program under Section 529 of the Internal Revenue Code.

The statute authorizes the Finance Authority of Maine ("FAME") to administer the Program and act as administrator of the Fund. The Fund is held by the Treasurer of the State who invests it under the direction of and with the advice of a seven member Advisory Committee on College Savings, which is chaired by the Treasurer. See Note 16 for additional information. FAME and the Treasurer have selected Merrill Lynch as the Program Manager. The Program is reported as a private purpose trust fund in the financial statements of the State.

NextGen's investments are comprised of 59 different investment portfolios which are reported at fair value and total \$6.0 billion at June 30, 2012.

*Custodial Credit Risk* – NextGen, in accordance with its Program Description, primarily invests in open-end mutual funds, which, according to GASB Statement No. 40, do not bear custodial credit risk; hence, the Program's exposure to custodial credit risk arising from its investment in mutual funds is considered to be insignificant.

The Program makes some investments in entities which are not mutual funds including a Guaranteed Investment Contract (GIC) issued by Transamerica Life Insurance Company in the Principal Plus Portfolio. Because an investment in a GIC represents a contractual investment rather than a security, it is not deemed to be subject to custodial credit risk.

The Program also invests in the Cash Allocation Account (the Account), a separate account that was established by FAME. All of the Account investments are held in either the name of the Account or the Account Agent's name, thereby minimizing the custodial credit risk.

*Credit Risk* - The Program has not established an investment policy that specifically limits its exposure to credit risk. The Program's investments in fixed income mutual funds, the Principal Plus Portfolio, and the Account may bear credit risk. The GIC underlying the Program's investment in the Principal Plus Portfolio has not been rated by any of the nationally recognized statistical rating organizations. The fair value of the GIC at June 30, 2012 was \$262.7 million.

The assets of the Account are invested in a portfolio of high-quality, short-term money-market securities consisting primarily of direct U.S. Government obligations, U.S. Government agency securities, obligations of domestic and foreign banks, U.S. dollar denominated commercial paper, other short-term debt securities issued by U.S. and foreign entities, and repurchase agreements. In addition, the Account invests in certificates of deposit issued by Maine financial institutions in accordance with instructions from FAME and the Treasurer. All Maine Certificate of Deposit's are FDIC insured or fully collateralized. The value of the Account at June 30, 2012 was \$271.7 million.

*Concentration of Credit Risk* – The Program has not established an investment policy that specifically limits its exposure to concentration of credit risk because the Program principally invests in mutual funds which have been excluded by GASB Statement No. 40 from its concentration of disclosure risk requirements.

*Interest Rate Risk* – The Program has not established an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Program's investments in fixed income mutual funds, the Principal Plus Portfolio, and the Account all invest in securities that are subject to interest rate risk.

Market values of the above-mentioned investments are presented below (in thousands):

	<u>Fair Value</u>
Principal Plus Portfolio	\$ 262,698
Cash Allocation Account	271,747
Fixed Income Securities	<u>1,826,891</u>
Total Fair Value	<u><u>\$2,361,336</u></u>

#### COMPONENT UNITS

Generally, component unit investment policies authorize investments in obligations of U.S. Treasury and Agency Securities, repurchase agreements, corporate bonds, certificates of deposit and money market funds. Some component units may invest in stocks, bonds, fixed income securities, mutual funds, commingled mutual funds and index funds, guaranteed investment contracts, real estate and other investment securities.

Certain component units also invest in the Treasurer's Cash Pool and comprise approximately 20 percent of pool assets. The component units reported their participation as either Cash and Cash Equivalents or Investments on their financial statements. The State reclassified \$97.2 million of the component units' participation to "Equity in Treasurer's Cash Pool" on the State's financial statements. In addition to the amounts reported, the State Treasurer's Cash Pool includes \$4.7 million, consisting of Finance Authority of Maine component unit fiduciary funds that, because of GASB Statement No. 34 reporting criteria, are not shown in the accompanying financial statements as invested in the Treasurer's Cash Pool.

**NOTE 6 - RECEIVABLES**

Receivable balances are segregated by type, and presented in the fund financial statements net of allowance for uncollectibles. The following tables disaggregate amounts considered to be uncollectible by fund and type of receivable as of the close of the fiscal year:

**Primary Government – Receivables**  
(Expressed in Thousands)

	<u>Taxes</u>	<u>Accounts</u>	<u>Loans</u>	<u>Allowance for Uncollectibles</u>	<u>Net Receivables</u>
<b>Governmental Funds:</b>					
General	\$554,720	\$124,608	\$1	(\$176,854)	\$502,475
Highway	31,396	3,630	27	(4,250)	30,803
Federal	-	102,605	-	(30,032)	72,573
Other Special Revenue	11,278	77,401	5,510	(10,783)	83,406
Other Governmental Funds	-	39	-	-	39
Total Governmental Funds	597,394	308,283	5,538	(221,919)	689,296
Allowance for Uncollectibles	(133,019)	(88,900)	-		
Net Receivables	<u>\$464,375</u>	<u>\$219,383</u>	<u>\$5,538</u>		<u>\$689,296</u>
<b>Proprietary Funds:</b>					
Employment Security	\$ -	\$50,641	\$ -	(\$19,175)	\$31,466
Nonmajor Enterprise	-	26,304	-	(1,074)	25,230
Internal Service	-	463	-	-	463
Total Proprietary Funds	-	77,408	-	(20,249)	57,159
Allowance for Uncollectibles	-	(20,249)	-		
Net Receivables	<u>\$ -</u>	<u>\$ 57,159</u>	<u>\$ -</u>		<u>\$57,159</u>

**Component Units – Receivables**  
(Expressed in Thousands)

	<u>Accounts</u>	<u>Loans</u>	<u>Notes</u>	<u>Allowance For Uncollectibles</u>	<u>Net Receivables</u>
Finance Authority of Maine	\$692	\$ -	\$31,145	(\$6,018)	\$25,819
Maine Community College System	17,326	-	-	(1,186)	16,140
Maine Health and Educational Facilities Authority	676	1,145,111	-	(427)	1,145,360
Maine Municipal Bond Bank	877	-	-	-	877
Maine State Housing Authority	28,146	1,418,484	364	(11,273)	1,435,721
Maine Turnpike Authority	3,555	-	-	-	3,555
University of Maine System	56,600	-	41,585	(6,505)	91,680

**NOTE 7 - INTERFUND TRANSACTIONS**

Interfund receivables and payables represent amounts owed to one State fund by another, for goods sold or services received, or for borrowings to eliminate negative balances in the Treasurer's Cash Pool.

Balances due within one year are recorded as Due to/Due from Other Funds. The balances of current interfund receivables and payables as of June 30, 2012 were:

**Interfund Receivables**  
(Expressed in Thousands)

<u>Due from Other Funds</u>	<u>Due to Other Funds</u>				
	<u>General</u>	<u>Highway</u>	<u>Federal</u>	<u>Other Special Revenue</u>	<u>Other Governmental</u>
General	\$ -	\$ -	\$ 1,348	\$ -	\$ -
Highway	1	1	7,171	-	-
Federal	16	1	106	1,292	-
Other Special Revenue	119,924	85	143	140	19
Other Governmental	214	-	-	-	-
Employment Security	-	-	24	-	-
Non-Major Enterprise	143	124	1	2	-
Internal Service	8,592	2,969	3,632	3,249	-
Fiduciary	30,195	-	-	-	-
Total	<u>\$ 159,085</u>	<u>\$ 3,180</u>	<u>\$ 12,425</u>	<u>\$ 4,683</u>	<u>\$ 19</u>

<u>Due from Other Funds</u>	<u>Employment Security</u>	<u>Non-Major Enterprise</u>	<u>Internal Service</u>	<u>Fiduciary</u>	<u>Total</u>
General	\$ -	\$ 4,989	\$ 5,479	\$ 2,647	\$ 14,463
Highway	-	-	-	-	7,173
Federal	-	-	-	-	1,415
Other Special Revenue	-	9	30	-	120,350
Other Governmental	-	-	-	-	214
Employment Security	-	-	-	-	24
Non-Major Enterprise	-	-	-	-	270
Internal Service	-	241	777	8	19,468
Fiduciary	-	-	-	-	30,195
Total	<u>\$ -</u>	<u>\$ 5,239</u>	<u>\$ 6,286</u>	<u>\$ 2,655</u>	<u>\$ 193,572</u>

Not included in the table above are interfund loans/advances, which are not expected to be repaid within one year. Postal, Printing & Supply (an internal service fund) owes \$111 thousand to the General Fund for operating capital.

Included in the Due to/Due from other funds is \$15 million due to the Other Special Revenue Fund related to the General Fund's negative cash position in the Treasurer's Cash Pool. This type of temporary loan is typical; cash is frequently borrowed and returned depending on cash flow needs. Additionally, \$91 million due to the Other Special Revenue Fund from the General Fund relates to the interfund borrowing authorized in Public Law 2011, Chapter 655, Part DDD-1.

Transfers are made in accordance with statutory authority. Significant transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) move receipts restricted to debt service from the funds collecting the receipts to the funds required to pay debt service as principal and interest payments come due, 3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, 4) move profits from the Lottery Fund, and 5) transfer accumulated surpluses from other funds to the General Fund when authorized by statute.

During fiscal year 2012, the State of Maine, in accordance with the legislatively authorized budget, recorded the following non-routine, nonrecurring transfers.

The Dirigo Health Fund transferred \$10.5 million to the Department of Health and Human Services, Other Special Revenue Fund.

Interfund transfers for the year ended June 30, 2012, consisted of the following:

<b>Interfund Transfers</b> (Expressed in Thousands)					
<b>Transferred To</b>	<b>Transferred From</b>				
	<b>General</b>	<b>Highway</b>	<b>Federal</b>	<b>Other Special Revenue</b>	<b>Other Governmental</b>
General	\$ -	\$ -	\$ 4,810	\$ 73,745	\$ -
Highway	1,979	-	25,011	1,803	-
Federal	2,120	-	-	15,627	-
Other Special Revenue	171,895	5,300	9,984	-	2,549
Other Governmental Funds	32,927	-	-	-	1,522
Employment Security	-	-	-	-	-
Non-Major Enterprise	3,197	3,949	70	356	-
Internal Service	4,709	705	2,769	237	-
Fiduciary	-	-	-	1	671
<b>Total</b>	<b>\$ 216,827</b>	<b>\$ 9,954</b>	<b>\$ 42,644</b>	<b>\$ 91,769</b>	<b>\$ 4,742</b>

<b>Transferred To</b>	<b>Transferred From</b>				
	<b>Employment Security</b>	<b>Non-Major Enterprise</b>	<b>Internal Service</b>	<b>Fiduciary</b>	<b>Total</b>
General	\$ -	\$ 53,817	\$ 2,350	\$ -	\$ 134,722
Highway	-	-	535	-	29,328
Federal	1,420	-	509	-	19,676
Other Special Revenue	-	17,262	180	790	207,960
Other Governmental Funds	-	-	-	-	34,449
Employment Security	-	-	-	-	-
Non-Major Enterprise	-	-	141	-	7,713
Internal Service	-	185	616	-	9,221
Fiduciary	-	-	-	-	672
<b>Total</b>	<b>\$ 1,420</b>	<b>\$ 71,264</b>	<b>\$ 4,331</b>	<b>\$ 790</b>	<b>\$ 443,741</b>

**NOTE 8 - CAPITAL ASSETS**

The following schedule details changes in capital assets for the governmental activities and business-type activities of the primary government for the fiscal year ended June 30, 2012:

**Primary Government – Capital Assets**  
(Expressed in Thousands)

	<b><u>Beginning Balance (Restated)</u></b>	<b><u>Increases and Other Additions</u></b>	<b><u>Decreases and Other Deletions</u></b>	<b><u>Ending Balance</u></b>
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 488,197	\$ 9,996	\$ 300	\$ 497,893
Construction in progress	119,419	36,198	107,144	48,473
Infrastructure	3,814,466	204,500	-	4,018,966
Total capital assets not being depreciated	4,422,082	250,694	107,444	4,565,332
Capital assets being depreciated:				
Buildings	592,943	49,745	16,487	626,201
Equipment	255,915	19,679	19,966	255,628
Improvements other than buildings	19,796	1,051	4	20,843
Software	9	58,720	-	58,729
Total capital assets being depreciated	868,663	129,195	36,457	961,401
Less accumulated depreciation for:				
Buildings	239,590	19,723	9,592	249,721
Equipment	175,869	16,206	19,248	172,827
Improvements other than buildings	12,951	1,108	1	14,058
Software	4	4,625	-	4,629
Total accumulated depreciation	428,414	41,662	28,841	441,235
Total capital assets being depreciated, net	440,249	87,533	7,616	520,166
Governmental Activities Capital Assets, net	\$ 4,862,331	\$ 338,227	\$ 115,060	\$ 5,085,498
	<b><u>Beginning Balance</u></b>	<b><u>Net Additions</u></b>	<b><u>Net Deletions</u></b>	<b><u>Ending Balance</u></b>
<b>Business-Type Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 58,888	\$ -	\$ -	\$ 58,888
Construction in progress	32,024	7,109	20,578	18,555
Total capital assets not being depreciated	90,912	7,109	20,578	77,443
Capital assets being depreciated:				
Buildings	9,449	-	-	9,449
Equipment	67,037	18,815	4,960	80,892
Improvements other than buildings	63,342	11,547	-	74,889
Total capital assets being depreciated	139,828	30,362	4,960	165,230
Less accumulated depreciation for:				
Buildings	5,920	251	-	6,171
Equipment	49,603	5,863	2,763	52,703
Improvements other than buildings	28,860	2,176	-	31,036
Total accumulated depreciation	84,383	8,290	2,763	89,910
Total capital assets being depreciated, net	55,445	22,072	2,197	75,320
Business-Type Activities Capital Assets, net	\$ 146,357	\$ 29,181	\$ 22,775	\$ 152,763

During the fiscal year, depreciation expense was charged to the following functions in the governmental activities column of the Statement of Activities for the primary government:

**Governmental Activities – Depreciation Expense**

(Expressed in Thousands)

	<u><b>Amount</b></u>
<b>Governmental Activities:</b>	
Arts, Heritage and Cultural Enrichment	\$ 16
Business Licensing and Regulation	429
Economic Development and Workforce Training	1,180
Education	621
Governmental Support and Operations	5,829
Health and Human Services	8,161
Justice and Protection	10,835
Natural Resources Development and Protection	3,156
Transportation Safety and Development	11,435
Total Depreciation Expense – Governmental Activities	<u>\$ 41,662</u>

**NOTE 9 - MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM**

**PLAN DESCRIPTIONS**

The Maine Public Employees Retirement System, formerly named the Maine State Retirement System, (the System), is a component unit of the State of Maine. For financial reporting purposes, the System administers an agent, multiple-employer, defined benefit public employee retirement system established and administered under the Title 5 MRSA C. 421, 423, and 425. The System provides pension, disability, and death benefits to its members, which includes employees of the State, public school employees (defined by Maine law as teachers and for whom the State is the employer for retirement contribution and benefit purposes, or SETP) and employees of 293 local municipalities and other public entities (Participating Local Districts, or PLDs) in Maine, each of which contracts for participation in the System under provisions of the relevant statutes. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for the plan. The June 30, 2012 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The Maine Public Employees Retirement System management's interpretation of the State of Maine statutes is that all assets accumulated for the payment of benefits may legally be used to pay benefits, including refunds of member contributions, to any plan members or beneficiaries. The System is therefore regarded as administering an agent, multiple-employer plan for financial reporting purposes. The statements include \$2.1 billion of assets related to the PLD's. The Attorney General's Office does not concur that these assets are available for payment of State benefits.

The total funds managed by the System are constitutionally restricted and held in trust for the payment of pension and related benefits to its members. The System's Board of Trustees, in its fiduciary capacity, establishes the System's investment policies and their overall implementation. The System maintains separate reserves and accounts for each participating entity and performs separate actuarial valuations for each participating entity's respective plan.

The System administers three defined contribution plans for employees of PLD's that elect to participate. At June 30, 2012, there were 57 employers participating in these plans. The 817 participants individually direct the \$16.5 million in net assets covered by the plans.

The System also provides group life insurance under a plan administered by a third party insurance company and invests long-term assets for the Retiree Health Insurance Post-Employment Benefits Investment Trust Fund. Note 10 provides for further disclosure.

#### **BASIS OF ACCOUNTING**

The System's financial statements are prepared on the accrual basis of accounting. Pension contributions are recognized as additions in the period when they become due pursuant to formal commitments or statutory or contractual requirements. Investment income is recognized when earned. Contributions to defined contribution plans are recognized in the period they are contributed. Pension benefits and contributions and premium refunds are recognized as deductions when due and payable in accordance with Statutes. Benefits payable incurred but not reported are reflected as other liabilities. Distributions from defined contribution plans are recognized in the period the disbursement is made.

#### **INVESTMENTS**

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair value. Fair value of shares in managed investment pools is based on unit values reported by the funds. The fair value of other investments, including real estate holdings and mortgage participation agreements, are based on third-party appraisals and valuations provided by the sponsor of the agreement. Investment purchases and sales are recorded as of their trade date. Proceeds related to securities sold not yet purchased are carried as a liability and adjusted to the fair value of the securities.

#### **CONTRIBUTION INFORMATION**

Membership in each defined benefit plan consisted of the following at June 30, 2012:

	State Employees and Teachers Plan	Consolidated Plan for PLD
Active vested and nonvested members	39,594	10,800
Terminated vested participants	6,378	1,220
Retirees and benefit recipients	30,689	7,719
Total	<u>76,661</u>	<u>19,739</u>
Number of participating employers/sponsors	1	293

Contributions from members and employers and earnings from investments fund retirement benefits. Employer contributions and investment earnings fund disability and death benefits. Member and employer contributions are a percentage of applicable member compensation. Member contribution rates are defined by law and depend on the terms of the plan under which a member is covered. Employer contribution rates are determined by biennial actuarial valuations.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual rate of interest credited to terminated members' accounts is set by the System's Board of Trustees and is currently 5 percent.

**STATE EMPLOYEES AND TEACHERS PENSION PLAN SPECIFICS**

The System's retirement programs provide retirement benefits based on members' average final compensation and creditable service. Vesting occurs upon the earning of five years of service credit or the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Normal retirement age for State employees and teachers is age 60, 62 or 65. The normal retirement age is determined by whether a member had met certain creditable service requirements on specific dates, as established by statute. The monthly benefit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. The System also provides disability and survivor benefits, which are established by statute for State employee and teacher members, and by contract with other participating employers under applicable statutory provisions.

**PARTICIPATING LOCAL DISTRICTS PLAN SPECIFICS**

In the event that a PLD withdraws from the System, its individual employee-members can terminate membership or remain contributing members. The PLD remains liable for contributions sufficient to fund benefits for its already retired former employee-members; for its terminated vested members; and for those active employees, whether or not vested, who remain contributing System members.

**SPECIAL FUNDING SITUATION – TEACHERS DEFINED BENEFIT PENSION PLAN**

The State is legally responsible for contributions to the Teacher Group that covers retirees of other governmental entities. The State is the sole "employer" contributor for the teachers; and, therefore, is acting as the employer.

**FUNDED STATUS AND FUNDING PROGRESS – DEFINED BENEFIT PENSION PLANS**

The funded status of each plan as of June 30, 2012, the most recent biennial actuarial valuation date, is as follows:

(Expressed in Thousands)						
	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c
Plans	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) – Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL (as a percentage of covered payroll)
SETP	8,939,788	11,605,891	2,666,103	77.0%	1,727,667	154.3%
PLD's	2,136,653	2,405,708	269,055	88.8%	476,244	56.5%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits. Additional information as of the latest actuarial valuation date follows:

	SETP	PLD's
Valuation date	June 30, 2012	June 30, 2012
Actuarial cost method	Entry age	Entry age
Version	Individual	Individual
Amortization method	Level percent	Level dollar
	closed	open
Remaining amortization period	16	15
Asset valuation method	3 - Year smoothed market	3 - Year smoothed market
Actuarial assumptions:		
Investment rate of return	7.25%	7.25%
Projected salary increases	3.50%	3.50% - 9.50%
Includes inflation at	3.50%	3.50%
Cost of living adjustments	2.55%	3.12%
Most recent review of plan experience:	2011	2011
Former actuarial assumptions:		
Version of actuarial cost method	New entrant	New entrant
Retirement assumption	lowered to reflect the closing of the retirement window for early retiree health coverage	

<sup>1</sup> The System amortizes the unfunded liability of the State and teacher plan over a closed period that cannot be longer than 31 years from July 1, 1997 but may be, and at certain times has been, shorter than that period. In 2000, the amortization period was reduced to a 19-year period from June 30, 2000. In 2004, the Legislature relengthened the period to 25 years, the full extent of the then-remaining Constitutional years for the 2004-2005 biennium, and reshortened the period effective July 1, 2005 to the 13 years that will then remain in the earlier shortened period. In 2005, the State repealed the "sunset" provision, with the result that the period for reduction of these unfunded actuarial liabilities continues to the full extent permitted by the State constitution, or June 30, 2028. The contribution rate in effect for 2010 was determined by the 2008 valuation, and reflects the relengthened amortization period. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 5 years remained at June 30, 2012.

#### CONTRIBUTION RATES – DEFINED BENEFIT PENSION PLANS

The Maine Constitution, Maine Statutes and the System's funding policy provide for periodic employer contributions at actuarially determined rates that, based upon certain assumptions, are expressed as percentages of annual covered payroll and are sufficient to accumulate adequate assets to pay benefits when due.

In order to reduce any unfunded pension liability for State employees and teachers under Title 5 MRSA § 1536, the State is required to remit 20 percent of its General Fund unappropriated surplus to the System at year-end. For fiscal 2012, no amount was owed.

Significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the standardized measure of the pension obligation.

The actuarially determined contribution rates in effect for 2012 for participating entities:

<u>State</u>		
Employees	1	7.65 - 8.65%
Employer	1	23.47 - 101.26%
<u>Teachers</u>		
Employees		7.65%
Employer		23.94%
<u>Participating Local Entities</u>		
Employees	1	3.0 - 8.0%
Employer	1	2.4 - 10.2%

<sup>1</sup> Contribution rates vary depending on specific terms of plan benefits for certain classes of employees and/or, in the case of participating local districts (PLDs), on benefit plan options selected by a particular participating local entity. Withdrawn entities' contributions are set in dollar amounts, not as rates.

#### ANNUAL PENSION COST AND NET PENSION OBLIGATION

The State is one of several employers whose employees are System members. The State's net pension obligation shown at the end of the year includes the pension liability related to its employees. It does not include the pension liability related to PLD's. The State's annual pension cost and net pension obligation to the System for the current year were:

#### Net Pension Obligation

(Expressed in Thousands)

Annual required contribution	\$ 252,830
Interest on net pension obligation	147
Adjustment to annual required contribution	(165)
Annual pension cost	252,812
Contributions made	252,830
Increase (decrease) in net pension obligation	(18)
Net pension obligation beginning of year	2,028
Net pension obligation end of year	\$ 2,010

#### Analysis of Funding Progress

(Expressed in Thousands)

<u>Year</u>	<u>Annual Pension Cost</u>	<u>Percentage Covered</u>	<u>Net Pension Obligation</u>
2012	\$ 252,812	100.01%	\$ 2,010
2011	328,127	101.77%	2,028
2010	318,171	103.47%	7,845

Employer contributions met actuarially determined contribution requirements.

**COMPONENT UNIT PARTICIPANTS**

The Maine Municipal Bond Bank, Maine Maritime Academy, and the Maine Public Employees Retirement System have defined benefit pension plans. All are participating local entity participants in plans administered by the Maine Public Employees Retirement System. For financial reporting purposes, employees of the Maine Community College System, Maine Educational Center for the Deaf and Hard of Hearing, and the Northern New England Passenger Rail Authority are combined with State employees for retirement benefit purposes and are included in the pension disclosures of the State.

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS****POST RETIREMENT HEALTHCARE PLANS**

The State sponsors and contributes to two defined benefit healthcare plans: a sole employer plan for its employees, and county and municipal law enforcement officers and firefighters (First Responders). Each plan provides medical benefits to eligible retired employees and beneficiaries. Statute prescribes what portion of health insurance costs are funded by the State. The State also agreed to fund a set percentage of retiree healthcare costs for teachers. Statute prescribes what portion of health insurance costs are funded by the State.

The State of Maine funds post retirement health care benefits for most retired State employees and legislators, as authorized by Title 5 MRSA § 285, and for a portion of the premiums for teachers, as authorized by Title 20-A MRSA § 13451. Pursuant to Title 5 MRSA § 285 most retired employees of the Maine Turnpike Authority, Maine Community College System, Maine Maritime Academy, Maine Public Employees Retirement System, and Maine Educational Center for the Deaf and Hard of Hearing are eligible to participate in the health plan but are not funded by the State. Specifically excluded (Title 5 MRSA § 285 1-B) are members of the Maine Municipal Association, Maine Teachers Association and employees of counties and municipalities and their instrumentalities, except as provided in subsection 11-A. Title 5 MRSA § 286-M included retired county or municipal law enforcement officers and municipal firefighters, as defined in subsection 286-M, who participate in an employer-sponsored retirement plan and, prior to July 1, 2007 were enrolled in a self-insured health benefits plan offered by the employing county or municipality.

The State pays 100 percent of post retirement health insurance premiums for state employee retirees who were first employed on or before July 1, 1991. A pro rata portion, ranging from zero percent for retirees with less than five years participation to 100 percent for retirees with ten or more years of participation, is paid for eligible individuals first employed after July 1, 1991. Per Title 5 MRSA § 285 paragraphs 2 and 3, coverage depends upon terms and conditions contained in collective bargaining agreements with the State Health Commission. Retirees who are not eligible for Medicare retain coverage in the same group health plan as active employees. Retirees must pay for Medicare Part B coverage to be eligible to participate in the State-funded Companion Plan. Coverage for retirees ineligible for Medicare includes basic hospitalization; supplemental major medical and prescription drugs; and costs for treatment of mental health, alcoholism, and substance abuse.

Effective January 1, 2006, the State contribution to retired teacher health premiums was increased to 45 percent of the retiree-only premium. The rate is based on a single rate for single and employee plus children coverage, or 50 percent of the two party rate for two party and family coverage.

For State employees and Teachers, other options exist. Part-time employees are eligible for prorated benefits with retirees who worked 50 percent or more of full-time hours receiving 100 percent of the benefit. Surviving spouses and dependents may continue in the plan and pay 100 percent of the premium. Retirees ineligible for a State contribution are allowed to participate and pay the retiree premium.

County and municipal law enforcement officers and municipal firefighters began coverage in Fiscal Year 2008 with the State contributing 45 percent of the retiree-only premium of their respective plans. The State's premium subsidy is based on the Title 5 MRSA § 285 paragraph 11-A C cost of the retiree's share of the individual premium for the standard plan identified and offered under the group health insurance plan in which the retiree enrolls. The State subsidy ends after the retiree is eligible for Medicare. First Responders are eligible if they retire after age 50 with 25 or more years of service and receive a retirement benefit from either the MPERS or a defined contribution plan. If retirees have fewer than 25 years of service, the normal retirement benefit must be at least 50 percent of final average compensation. Retirees must also participate in their employer's health insurance plan or other fully insured health plan for at least 5 years. Retirees can elect to participate in the plan at their retirement date. If participation is waived at that time, the retiree is ineligible to participate at a later date.

The State also administers a fourth defined benefit healthcare plan, (Ancillary Group Plan), which covers two non-major discretely presented component units. Under the Ancillary Group Plan, the State acts as the plan administrator only.

Beginning in the fiscal year ending June 30, 2008, each participating employer is required by GASB Statement 45, *Accounting and Financial Reporting by Employer for Postemployment Benefits Other Than Pensions*, to disclose additional information with regard to funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

#### PLAN MEMBERSHIP

Membership in the four healthcare plans is as follows:

	State Employees	Teachers	First Responders	Ancillary Groups
Actives	12,419	28,375	741	63
Retirees	9,587	9,520	80	13
Total	<u>22,006</u>	<u>37,895</u>	<u>821</u>	<u>76</u>
Number of employers	1			2
Contributing entities		1	1	2

#### STATE EMPLOYEES PLAN FUNDING POLICY

Title 5 MRSA § 286-B authorized an Irrevocable Trust Fund for Other Post-employment Benefits to meet the State's unfunded liability obligations for retiree health benefits for eligible participants who are the beneficiaries of the irrevocable trust fund. Annually, beginning with the fiscal year starting July 1, 2007, the Legislature shall appropriate funds to meet the State's obligations under any group health plan, policy or contract purchased by the State Employee Health Commission. Unfunded liabilities may not be created except those resulting from experience losses. Unfunded liability resulting from experience losses must be retired over a period not to exceed 10 years. The unfunded liability for retiree health benefits for eligible participants must be retired in 30 years or less from July 1, 2007.

Public Law 2007, Chapter 240, amended Title 5 Chapter 421 by establishing the Irrevocable Trust for Other Post-employment Benefits. MPERS holds and invests long-term funds in the irrevocable trust fund. Its fiduciary responsibilities include setting investment policy in order to fund the plan in accordance with a projected disbursement schedule that does not begin before the year 2027.

**TEACHERS PLAN AND FIRST RESPONDERS PLAN FUNDING**

A special funding situation exists for these plans. The State is statutorily responsible for contributions to the Teachers Plan and the First Responders Plan that cover the retirees of other governmental entities. The State is the sole contributing entity for Teachers and the primary contributing entity for the First Responders, therefore, making the contribution on behalf of the employing jurisdictions at a 45 percent level for the current portion of the health plan costs and are not included in the Trust.

Public Law 2011, Chapter 380 Pt. Y § 2 established separate Irrevocable Trust Funds for Other Post-employment Benefits to meet the State's unfunded liability obligations for retiree health benefits for eligible participants who are the beneficiaries of the irrevocable trust funds. Annually, beginning with the fiscal year starting July 1, 2011, the Legislature shall appropriate funds to meet the State's obligations to retire the unfunded liability for eligible first responders in 30 years or less from July 1, 2007. Annually, beginning with the fiscal year starting July 1, 2013, the Legislature shall appropriate funds to meet the State's obligations to retire the unfunded liability at June 30, 2006 for eligible teachers in 30 years or less from July 1, 2007.

No implied subsidy is calculated for either plan. The State does not pay for any of the costs of active employees. The State limited its contribution to 45 percent of the retiree-only premium.

**ANCILLARY GROUP PLAN**

The following plan, administered by the State, is financially independent and is not included in the State Retiree Health Internal Service Fund. This multiple-employer agent postemployment benefit plan covers 11 retirees of two non-major component units: Maine Educational Center for the Deaf and Hard of Hearing and the Northern New England Passenger Rail Authority. All active employees participate in the State Employee Group Health Insurance Plan. All eligible retired employees who elect coverage are included in this plan. The State Employee Health Commission establishes premiums annually.

**ANNUAL OPEB COST**

Contribution requirements are set forth in statute. The annual other post-employment benefit (OPEB) cost (expense) for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The State's annual OPEB cost for the current year and the related information for each plan are as follows:

(Expressed in Thousands)			
	<b>State Employees</b>	<b>Teachers</b>	<b>First Responders</b>
Annual required contribution	\$ 126,000	\$ 55,000	\$ 1,350
Interest on net OPEB obligation	2,000	6,000	114
Adjustment to annual required contribution	(5,000)	(12,000)	(210)
Annual OPEB cost	123,000	49,000	1,254
Contributions made	73,000	22,000	434
Increase (decrease) in net healthcare obligation	50,000	27,000	820
Net healthcare obligation beginning of year	42,228	146,956	2,838
Net healthcare obligation end of year	<u>\$ 92,228</u>	<u>\$ 173,956</u>	<u>\$ 3,658</u>

The annual OPEB cost for the current year, the percentage of annual OPEB cost contributed to the plan, and the net OPEB (asset) obligation for each plan are as follows:

**Analysis of Funding Progress**

(Expressed in Thousands)

<u>Plan</u>	<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
State Employees	6/30/2012	123,000	59.35%	92,228
	6/30/2011	119,000	71.43%	42,228
	6/30/2010	92,000	59.78%	8,228
Teachers	6/30/2012	49,000	44.90%	173,956
	6/30/2011	58,000	31.03%	146,956
	6/30/2010	56,000	33.93%	106,956
First Responders	6/30/2012	1,254	34.61%	3,658
	6/30/2011	845	61.89%	2,838
	6/30/2010	1,051	35.01%	2,516

**FUNDED STATUS AND FUNDING PROGRESS**

The funded status of the plans as of June 30, 2012 was as follows:

<u>Plan</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL (as a percentage of covered payroll)</u>
State Employees (in millions)	June 30, 2012	136	1,316	1,180	10.33%	502	235.06%
	June 30, 2011	112	1,544	1,432	7.25%	567	252.56%
	June 30, 2010	103	1,450	1,347	7.10%	549	245.36%
Teachers (in millions)	June 30, 2012	0	665	665	0.00%	1,156	57.53%
	June 30, 2011	0	801	801	0.00%	1,098	72.95%
	June 30, 2010	0	994	994	0.00%	1,064	93.42%
First Responders (in thousands)	June 30, 2011	0	21,921	21,921	0.00%	42,242	51.89%
	June 30, 2010	0	19,158	19,158	0.00%	53,821	35.60%
	June 30, 2009	0	20,063	20,063	0.00%	51,876	38.67%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

## ACTUARIAL METHODS AND ASSUMPTIONS

Projection of benefits are based on the terms of the substantive plan at the time of each valuation and include types of benefits in force at the valuation date and the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

	<u>State Employees</u>	<u>Teachers</u>	<u>First Responders</u>
Valuation date	June 30, 2012	June 30, 2012	June 30, 2011
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percent closed	Level percent closed	Level percent closed
Remaining amortization period - UAAL	25	25	26
Plan changes	30-year fixed <sup>1</sup>	30-year fixed <sup>1</sup>	20-year fixed
Actuarial (gains) /losses	10-year fixed	15-year fixed	rolling 15 year period
Asset valuation method	investment gains and losses spread over a 5 - year period no less than 80% nor more than 120% of market value	n/a	n/a
Actuarial assumptions:			
Investment rate of return	4.00% 7.25% ultimate	4.00% 7.25% ultimate	4.00%
Projected salary increases	3.25%	3.25%	3.00%
Inflation rate	3.00%	3.00%	3.00%
Healthcare inflation rate	initial - actual premiums <sup>2</sup> ultimate 5.00%	initial - actual premiums <sup>2</sup> ultimate 5.00%	8.50% ultimate 5.00%
Former actuarial assumptions:			
Investment rate of return			4.50%
Projected salary increases			3.75%
Inflation rate			3.75%
Healthcare inflation rate			8.00%

<sup>1</sup> Initial UAAL and plan changes are amortized over a 30 year period from 6/30/07.

<sup>2</sup> Healthcare cost assumptions for the first 2 fiscal years include no increase in non-Medicare costs.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The State's fiduciary financial statements are prepared on the accrual basis of accounting. Premiums are recognized when due and benefits are paid when incurred using the accrual basis of accounting. Premium refunds reduce premium revenue and claims recoveries reduce claims expense. Investment income is recognized when earned.

**CONTRIBUTIONS AND RESERVES**

The State Employees Health Insurance Committee establishes contributions to the plan by member employers and employees annually. Both active and retired members pay the same premium rate. Claims liabilities of the plan are periodically computed using statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants.

**INVESTMENTS**

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair value. Fair value of shares in managed investment pools is based on unit values reported by the funds. The fair value of other investments, including real estate holdings and mortgage participation agreements, are based on third-party appraisals and valuations provided by the sponsor of the agreement. Investment purchases and sales are recorded as of their trade date. Proceeds related to securities sold not yet purchased are carried as a liability and adjusted to the fair value of the securities.

**POST RETIREMENT GROUP LIFE INSURANCE BENEFIT PLAN**

The Maine Public Employees Retirement System, (the System), is a component unit of the State of Maine. For financial reporting purposes, the System administers an agent, multiple-employer, defined benefit Group Life Insurance Plan (GLIP) administered by a third party insurance company in accordance with Title 5 MRSA C. 423 and 425. Members include employees of the State, public school employees (defined by Maine law as teachers and for whom the State acts like the employer for retirement contribution and benefit purposes), members of the Judiciary and the Legislature, that are eligible for membership in the System. Group life insurance benefits are also provided to employees of 293 local municipalities and other public entities (Participating Local Districts, or PLDs) in Maine that elect to participate under provisions of the relevant statutes. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for the plan. The June 30, 2012 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The Plan provides Basic group life insurance benefits, during retirement, to retirees who participated in the group life insurance plan prior to retirement for a minimum of 10 years. The 10 year participation requirement does not apply to recipients of disability retirement benefits. The level of coverage in retirement is initially set to an amount equal to the retiree's average final compensation. The initial amount of Basic group life insurance benefit is then subsequently reduced at the rate of 15% per year to the greater of 40% of the initial amount or \$2,500.

Group life insurance funds managed by the System are constitutionally restricted and held in trust for the payment of benefits to participants or their beneficiaries. The System's Board of Trustees, in its fiduciary capacity, establishes the System's investment policies and their overall implementation. The System maintains separate reserves and accounts for each participating entity and performs a single actuarial valuation that provides separate data for each participating entity.

**BASIS OF ACCOUNTING**

The System's financial statements are prepared on the accrual basis of accounting. Premiums paid, by or on behalf of those covered, are set and collected by the System. The insurance company makes benefit payments. The System remits payments to the insurance company for premiums collected plus additional payments representing administrative fees.

Group life insurance premiums are recognized as additions in the period when they become due. Investment income is recognized when earned. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Group life insurance benefits and premium refunds are recognized as deductions when due and payable in accordance with Statutes. In addition, an estimate is made for group life insurance death benefits incurred before year end but not reported to the System until after year end. Group life insurance death benefits incurred but not reported are reflected as other liabilities.

## INVESTMENTS

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair value. Fair value of shares in managed investment pools is based on unit values reported by the funds. The fair value of other investments, including real estate holdings and mortgage participation agreements, are based on third-party appraisals and valuations provided by the sponsor of the agreement. Investment purchases and sales are recorded as of their trade date. Proceeds related to securities sold not yet purchased are carried as a liability and adjusted to the fair value of the securities.

## FUNDING POLICY

Premium rates are those determined by the System's Board of Trustees to be actuarially sufficient to pay anticipated claims and cover administrative costs. For State employee, legislative and judicial classes, the premiums for retiree life insurance coverage are factored into the premiums paid for Basic coverage while participants are active members. The State remits premiums at a single rate that supports basic coverage for active and retired State employees. This rate is \$.56 per month for every \$1,000 of coverage. Premiums for retiree life insurance coverage for retired teachers are paid by the State based on a rate of \$.33 per \$1,000 of coverage per month during the post-employment retirement period.

## ANNUAL OPEB COST

Contribution requirements are set forth in statute. The annual other post-employment benefit (OPEB) cost (expense) for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The State's annual OPEB cost for the current year and the related information for each plan are as follows:

(Expressed in Thousands)

	<b>State Employees</b>	<b>Teachers</b>
Annual required contribution	\$ 3,250	\$ 2,959
Interest on net OPEB obligation	(111)	-
Adjustment to annual required contribution	85	-
Annual OPEB cost	3,224	2,959
Contributions made	4,684	2,959
Increase (decrease) in net healthcare obligation	(1,460)	-
Net healthcare (asset) obligation beginning of year	(300)	-
Net healthcare (asset) obligation end of year	\$ (1,760)	\$ -

The State's OPEB cost, percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows:

**Analysis of Funding Progress**

(Expressed in Thousands)

<u>Plan</u>	<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB (Asset)</u>
State Employees	6/30/2012	3,224	145.29%	(1,760)
	6/30/2011	4,268	89.22%	(300)
	6/30/2010	4,383	89.98%	(761)
Teachers	6/30/2012	2,959	100.00%	-
	6/30/2011	2,532	100.00%	-
	6/30/2010	2,417	100.00%	-

**FUNDED STATUS AND FUNDING PROGRESS**

The funded status of the plan as of June 30, 2012 was as follows:

(Expressed in Thousands)							
	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)	
<u>Plan</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL (as a percentage of covered payroll)</u>
State Employees	June 30, 2012	24,700	80,900	56,200	30.53%	553,500	10.15%
	June 30, 2011	24,400	78,700	54,300	31.00%	623,600	8.71%
	June 30, 2010	19,700	71,500	51,800	27.55%	615,600	8.41%
Teachers	June 30, 2012	30,100	71,000	40,900	42.39%	630,800	6.48%
	June 30, 2011	27,800	67,600	39,800	41.12%	659,100	6.04%
	June 30, 2010	21,400	60,400	39,000	35.43%	650,600	5.99%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**ACTUARIAL METHODS AND ASSUMPTIONS**

Projection of benefits are based on the terms of the substantive plan at the time of each valuation and include types of benefits in force at the valuation date and the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Significant methods and assumptions were as follows:

Valuation date	June 30, 2012
Actuarial cost method	Entry age
Amortization method	normal
	Level percent
	open
Asset valuation method	market
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	3.25%
Inflation rate	3.50%
Cost of living increases in life benefits	N/A
Participation percent for future retirees	100.00%
Form of benefit payment	lump sum
Former actuarial assumptions:	
Projected salary increases	3.50% - 10.50%

**NOTE 11 - LONG-TERM OBLIGATIONS****PRIMARY GOVERNMENT**

The State records its liability for general obligation bonds in the Governmental Activities column on the Statement of Net Assets. Other long-term obligations recognized by the State include: revenue bonds issued by the Maine Governmental Facilities Authority, a blended component unit; obligations under Certificates of Participation and other financing arrangements; loans payable to component unit for repayment of bonds issued by the Maine Municipal Bond Bank on behalf of the Maine Department of Transportation; compensated employee absences; and the State's net pension obligation; other post-employment benefits; and obligations for pollution remediation and landfill closure and postclosure care costs.

**GENERAL OBLIGATION BONDS**

Programs for which the State issues general obligation bonds include: adaptive equipment loan programs; environmental cleanup and protection; highway and transportation related projects; agricultural and small business job creation; and acquisition, construction, and renovation of major capital facilities including State parks and historic sites. General obligation bonds are secured by the full faith and credit of the State. Debt service requirements are provided by legislative appropriation from the State's general tax revenues and are repaid in annual installments beginning not more than one year after issuance.

Changes in general obligation bonds of the primary government during fiscal year 2012 were:

**Primary Government - Changes in General Obligation Bonds**  
(Expressed in Thousands)

	<b>Balance July 1, 2011</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2012</b>	<b>Due Within One Year</b>
General Obligation Debt:					
General Fund	\$ 378,880	\$ 49,265	\$ 81,055	\$ 347,090	\$ 85,595
Special Revenue Fund	141,350	-	16,385	124,965	16,735
Total	<u>\$ 520,230</u>	<u>\$ 49,265</u>	<u>\$ 97,440</u>	<u>\$ 472,055</u>	<u>\$ 102,330</u>

Debt service requirements (principal and interest) for all outstanding general obligation bonds of the primary government, from June 30, 2012 until maturity, are summarized in the following table:

**Future Debt Service on General Obligation Bonds**  
(Expressed in Thousands)

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 102,330	\$ 18,076	\$ 120,406
2014	83,480	14,704	98,184
2015	69,650	11,886	81,536
2016	54,340	9,411	63,751
2017	49,105	7,102	56,207
2018 - 2022	113,150	10,611	123,761
Total	<u>\$ 472,055</u>	<u>\$ 71,790</u>	<u>\$ 543,845</u>

General fund, special revenue and other general obligation bonds issued and outstanding at June 30, 2012 are as follows:

**Primary Government – General Obligation Bonds Outstanding**

(Expressed in Thousands)

	<u>Amounts Issued</u>	<u>Outstanding June 30, 2012</u>	<u>Fiscal Year Maturities</u>		<u>Interest Rates</u>
			<u>First Year</u>	<u>Last Year</u>	
General Fund:					
Series 2003	\$ 97,080	\$ 9,705	2003	2013	1.50% - 5.00%
Series 2004	117,275	19,560	2005	2014	2.00% - 5.27%
Series 2005	137,525	45,925	2006	2015	2.00% - 5.27%
Series 2006	52,390	20,945	2007	2016	4.00% - 5.51%
Series 2007	33,975	16,975	2008	2017	4.00% - 5.50%
Series 2008	46,525	27,905	2009	2018	3.00% - 5.13%
Series 2009	96,035	60,960	2011	2019	2.50% - 5.00%
Series 2010	31,755	23,055	2011	2020	1.41% - 4.00%
Series 2011	86,010	72,795	2012	2021	1.625% - 5.00%
Series 2012	49,265	49,265	2013	2022	1.00% - 5.00%
Total General Fund		<u>\$ 347,090</u>			
Special Revenue Fund:					
Series 2004	\$ 13,000	\$ 2,175	2005	2014	2.00% - 4.00%
Series 2007	27,000	13,500	2008	2017	4.00% - 5.50%
Series 2008	57,550	34,530	2009	2018	3.00% - 5.13%
Series 2009	37,310	32,375	2011	2019	2.50% - 5.00%
Series 2010	25,080	22,475	2011	2020	1.41% - 4.00%
Series 2011	22,125	19,910	2012	2021	1.625% - 5.00%
Total Special Revenue		<u>\$ 124,965</u>			

**AUTHORIZED UNISSUED BONDS**

Any bonds not issued within five years of the date of ratification may not be issued after that date. Within two years after expiration of the five-year period, the Legislature may extend, by a majority vote, the five-year period for an additional five years or may deauthorize the bonds. If the Legislature fails to take action within those two years, the bond issue shall be considered to be deauthorized and no further bonds may be issued. At June 30, 2012, general obligations bonds authorized and unissued totaled \$40.8 million.

**REVENUE BONDS OF THE MAINE GOVERNMENTAL FACILITIES AUTHORITY**

The State included \$187.9 million in other financing arrangements to reflect revenue bonds issued by the Maine Governmental Facilities Authority (MGFA), a blended component unit. Payment of the bonds is subject to, and dependent upon, biennial appropriations being made by the State Legislature. Debt issued by MGFA is not debt of the State or any political subdivision within the State. The State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. MGFA may not issue securities in excess of \$325.5 million outstanding, at any one time, except for the issuance of certain revenue refunding securities.

During the fiscal year ended June 30, 2012, MGFA issued Series 2011A Bonds, which totaled \$33.0 million at an interest rate between 3.00 percent and 4.25 percent. At June 30, 2012, there were approximately \$3.2. million of MGFA in-substance defeased bonds outstanding.

**CERTIFICATES OF PARTICIPATION AND OTHER FINANCING ARRANGEMENTS**

The State uses financing companies, Certificates of Participation (COP's), and lease/purchase agreements to finance construction of certain State buildings, to purchase or generate software, and to purchase equipment and vehicles, including school buses. COP's are issued through a trustee, and the State is responsible for payments to the trustee that approximate the interest and principal payments made to the certificate holders. The State and school districts maintain custody and use of the assets; however, the trustee holds a lien as security until such time as the certificates are fully paid.

Neither COP's nor the other financing arrangements constitute a legal debt, liability, or contractual obligation in excess of amounts appropriated. The State's obligation to make minimum payments or any other obligation under agreements is subject to, and dependent upon, appropriations being made by the Legislature. The Legislature has no obligation to appropriate the money for future minimum payments or other obligations under any agreement.

**SHORT TERM OBLIGATIONS**

The State of Maine did not issue or retire Bond Anticipation Notes during fiscal year 2012. Short term obligations are used to meet temporary operating cash flow needs. At June 30, 2012 there were no outstanding Tax Anticipation Notes or Bond Anticipation Notes.

**OTHER LONG-TERM OBLIGATIONS**

In general, expenditures and fund liabilities are not recorded in governmental funds for long-term obligations until amounts owed are "due and payable." Fund liabilities are recorded in the proprietary funds when obligations are incurred. In the Statement of Net Assets, the State has recorded long-term obligations for its compensated employee absences, net pension obligation, other post-employment benefit obligations, pollution remediation landfill closure and postclosure care costs.

Changes in other long-term obligations for governmental and business-type activities for the fiscal year ended June 30, 2012, are summarized as follows:

**Primary Government - Changes in Other Long-Term Obligations**  
(Expressed in Thousands)

	<b>Balance July 1, 2011</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2012</b>	<b>Due Within One Year</b>
<b>Governmental Activities:</b>					
MGFA Revenue Bonds	\$ 172,150	\$ 33,000	\$ 17,285	\$ 187,865	\$ 18,245
COP's and Other Financing	71,830	7,171	26,904	52,097	26,323
Compensated Absences	46,443	156	4,545	42,054	4,430
Claims Payable	62,869	202,872	201,418	64,323	25,767
Capital Leases	33,690	1,386	5,298	29,778	5,324
Loans Payable to Component Unit	290,919	58,726	21,514	328,131	24,085
Net Pension Obligation	2,028	252,812	252,830	2,010	-
Other Post-Employment Benefit Obligation	190,622	168,962	92,879	266,705	-
Pollution Remediation and Landfill	47,037 *		18,157	28,880	-
Total Governmental Activities	<u>\$ 917,588</u>	<u>* \$ 725,085</u>	<u>\$ 640,830</u>	<u>\$ 1,001,843</u>	<u>\$ 104,174</u>
* as restated					
<b>Business-Type Activities:</b>					
Compensated Absences	\$ 883	\$ 765	\$ 59	\$ 1,589	\$ 109
Other Post-Employment Benefit Obligation	1,400	4,292	2,555	3,137	-
Total Business-Type Activities	<u>\$ 2,283</u>	<u>\$ 5,057</u>	<u>\$ 2,614</u>	<u>\$ 4,726</u>	<u>\$ 109</u>

Debt service requirements (principal and interest) for COP's and other financing arrangements of the primary government, from June 30, 2012 until maturity, are summarized as follows:

**Future Debt Service on MGFA Revenue Bonds, COP's and Other Financing Arrangements**  
(Expressed in Thousands)

<b>Fiscal Year</b>	<b>Governmental Funds</b>			<b>Internal Service Funds</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 11,417	\$ 35	\$ 11,452	\$ 33,151	\$ 8,605	\$ 41,756
2014	1,157	18	1,175	29,337	7,452	36,789
2015	570	3	573	23,908	6,467	30,375
2016	-	-	-	21,876	5,571	27,447
2017	-	-	-	19,351	4,717	24,068
2018 - 2022	-	-	-	59,675	13,696	73,371
2023 - 2027	-	-	-	23,235	6,149	29,384
2028 - 2031	-	-	-	16,285	1,498	17,783
Total	<u>\$ 13,144</u>	<u>\$ 56</u>	<u>\$ 13,200</u>	<u>\$ 226,818</u>	<u>\$ 54,155</u>	<u>\$ 280,973</u>

**CONDUIT DEBT OBLIGATIONS**

Under a General Bond Resolution adopted on June 5, 1973, Maine Health and Higher Educational Facilities Authority (MHHEFA) issues tax exempt bonds to assist in financing health care institutions and institutions for higher education. Loans to institutions made with proceeds of general resolution bonds are written for the entire amount of the bonds, including debt service reserve funds. Security for these bonds is limited to debt service reserve funds of and the loans to the specific institution for which the bond was issued. Therefore, these bonds are considered conduit debt.

**LOANS PAYABLE TO COMPONENT UNIT**

The State of Maine has pledged various revenue streams, as security for Grant Anticipation Bonds (GARVEE) and Transportation Infrastructure Revenue Bonds (TransCap) issued by the Maine Municipal Bond Bank (MMBB) on behalf of the Maine Department of Transportation to provide financing for qualified transportation projects.

Changes in GARVEE and TransCap revenue bonds during fiscal year 2012 were:

**Primary Government - Changes in GARVEE and TransCap Loans Payable**  
(Expressed in Thousands)

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>	<u>Due Within One Year</u>
Loans Payable to Component Unit:					
Federal Funds	\$ 119,346	\$ -	\$ 11,095	\$ 108,251	\$ 12,291
Special Revenue Fund	171,573	58,726	10,419	219,880	11,794
Total	<u>\$ 290,919</u>	<u>\$ 58,726</u>	<u>\$ 21,514</u>	<u>\$ 328,131</u>	<u>\$ 24,085</u>

Payment of principal and interest on the GARVEE bonds shall be subject to appropriation each year by the Legislature in an amount sufficient to cover the principal and interest requirements of MMBB's debt for these bonds. The State's receipt of these funds is subject to continuing federal appropriations. MMBB insured payments of principal and interest with a financial guaranty insurance policy. The bonds do not constitute a debt or obligation of the State.

Principal and interest on TransCap bonds are payable solely from pledged revenues, pledged rights, and pledged TransCap funds and accounts. Pledged revenues include certain motor vehicle registration and other fees, a portion of excise tax on gasoline and other special fuel, and certain amounts required to be transferred from the Highway Fund. All pledged revenues are required to be transferred to the TransCap Fund. The bonds do not constitute a debt or liability of the State.

GARVEE and TransCap Revenue bonds issued and outstanding at June 30, 2012 are as follows:

**GARVEE and TransCap Revenue Bonds Outstanding**

(Expressed in Thousands)

	<u>Amounts Issued</u>	<u>Outstanding June 30, 2012</u>	<u>Fiscal Year Maturities</u>		<u>Interest Rates</u>
			<u>First Year</u>	<u>Last Year</u>	
Federal Funds:					
Series 2004	\$ 48,395	\$ 20,005	2005	2015	2.50% - 5.00%
Series 2008	50,000	39,400	2009	2020	3.25% - 4.00%
Series 2010A	25,915	23,340	2011	2017	2.00% - 5.00%
Series 2010B	24,085	24,085	2018	2022	4.52% - 5.32%
Total Federal Funds		<u>\$ 106,830</u>			
Special Revenue Fund:					
Series 2008	\$ 50,000	\$ 42,800	2009	2023	3.00% - 5.50%
Series 2009A	105,000	93,405	2010	2023	2.50% - 5.00%
Series 2009B	30,000	28,350	2010	2024	2.00% - 5.00%
Series 2011A	55,000	55,000	2012	2026	2.00% - 5.00%
Total Special Revenue		<u>\$ 219,555</u>			

Total principal and interest requirements over the life of the 2004 GARVEE bonds are \$60.2 million, with annual requirements of up to \$5.6 million; for the 2008 GARVEE bonds total principal and interest requirements are \$63.1 million, with annual requirements of up to \$5.3 million; for 2010 GARVEE bonds total principal and interest requirements are \$66.3 million, with annual requirements of up to \$5.3 million. Federal transportation funds received by the State for the federal fiscal year preceding the issuance of the 2004 GARVEE bonds totaled \$175 million. Total federal highway transportation funds received in federal fiscal year 2012 were \$207 million. Current year payments to MMBB for GARVEE bonds were \$15.1 million (7.3 percent of federal highway transportation funds received).

Total principal and interest requirements over the life of the 2008 TransCap Revenue Bond are \$71.9 million, with annual requirements up to \$4.8 million. Total principal and interest requirements over the life of the 2009A TransCap Revenue Bonds are \$144.3 million, with annual requirements up to \$10.1 million; for the 2009B TransCap Revenue Bonds total principal and interest requirements are \$46.2 million, with annual requirements up to \$16.9 million. Total principal and interest requirements over the life of the 2011A TransCap Revenue Bond are \$84.2 million, with annual requirements up to \$20.3 million. Total revenue received for revenue sources used as pledged revenues were \$38.2 million in fiscal year 2012.

**OBLIGATIONS UNDER CAPITAL LEASES**

The State leases various assets under noncancelable leasing arrangements. Leases that constitute rental agreements are classified as operating leases; the resulting expenditures are recognized as incurred over the lease term. Leases that are comparable to purchases are classified as capital leases.

In the government-wide and proprietary fund statements, assets and liabilities resulting from capital leases are recorded at lease inception. The principal portion of lease payments reduces the liability; the interest portion is expensed.

Most leases have cancellation clauses in the event that funding is not available. For reporting purposes, such cancellation clauses are not considered because the likelihood that they will be exercised is considered remote. Some lease agreements include renewal or purchase options. The effect of such options is reflected in the minimum lease payments only if it is considered reasonably assured that an option will be exercised. Because the

accounting treatment for installment purchase agreements is similar, such agreements are reported with capital leases.

Leases that exist between the State and the Maine Governmental Facilities Authority (MGFA), a blended component unit, are not recorded as leases in this report. In their separately issued financial statements, MGFA records a lease receivable from the State. Although payables and receivables technically exist between these parties, when combined for government-wide reporting, they are eliminated. A long-term liability exists on the government-wide statements for the bonds issued by MGFA to construct the assets associated with the leases. Future payments to MGFA are, therefore, not included in the schedule of lease commitments below.

At June 30, 2012 capital assets include \$66.2 million of capitalized buildings in the internal service funds, net of related accumulated depreciation of \$40.7 million.

#### **OBLIGATIONS UNDER OPERATING LEASES**

The State is obligated under certain leases, accounted for as operating leases, in the proprietary funds. Operating leases do not give rise to property rights or lease obligations, and therefore assets and liabilities related to the lease agreements are not recorded in the State's financial statements. Rental expense incurred under operating leases totaled \$2.4 million during the year.

A summary of the operating and noncancelable capital lease commitments to maturity follows:

#### **Future Minimum Lease Payments Capital and Operating Leases (Expressed in Thousands)**

<b>Fiscal Year</b>	<b>Capital Leases</b>	<b>Operating Leases</b>
2013	\$ 5,324	\$ 5,811
2014	4,656	5,414
2015	4,248	5,032
2016	3,734	4,439
2017	3,370	3,943
2018 - 2022	11,052	13,387
2023 - 2027	3,130	5,887
2028 - 2032	2	775
2033 - 2037	-	764
2038 - 2042	-	852
2043 - 2047	-	762
2048 - 2051	-	892
Total Minimum Payments	<u>35,516</u>	<u>\$ 47,958</u>
Less: Amount Representing Interest	<u>5,738</u>	
Present Value of Future Minimum Payments	<u>\$ 29,778</u>	

#### **MGFA REVENUE BONDS, COP'S AND OTHER FINANCING ARRANGEMENTS**

MGFA revenue bonds will be liquidated by the MGFA Internal Service Fund, from revenues received through lease agreements with various governmental funds. The liability for loans payable to the component unit will be liquidated from the Federal Fund and Highway Fund. The vast majority of COP's and other financing arrangements will be liquidated by the internal service fund in which the leases are recorded; the General and Highway Funds will pay relatively small amounts.

**CLAIMS PAYABLE**

Claims payable that represent Medicaid claims will be paid from the General Fund and Federal Fund. Claims payable that represent workers' compensation and retiree/employee health will be liquidated by the applicable governmental and internal service funds that account for the salaries and wages of the related employees. Other claims and judgments attributable to governmental activities will be liquidated by the General Fund and related special revenue funds.

**COMPENSATED ABSENCES**

In the government-wide statements and proprietary fund financial statements, compensated absences are reported as long-term liabilities as required by GASB. In the governmental fund financial statements, vested or accumulated leave is reported as an expenditure and fund liability when incurred upon retirement, termination or death. Sick and vacation payments made to terminated employees as of June 30, 2012 but paid after the fiscal year end is also reported in the funds.

**COMPONENT UNITS**

Bonds payable of the discretely presented component units are legal obligations of the component units and are not general obligations of the State. The following table summarizes bonds outstanding for selected material balances of discretely presented component units, as reported in their separately issued financial statements, utilizing their respective fiscal year-ends:

**Component Unit Bonds Outstanding**

(Expressed in Thousands)

<u>Component Unit</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Maturity Dates</u>
Finance Authority of Maine	1.00%	1,513	2012 – 2025
Maine Community College System	3.0 - 5.0%	24,653	2012 - 2037
Maine Health and Higher Educational Facilities Authority			
debt	1.25 - 6.2%	1,263,465	2012 - 2040
conduit debt	3.42 - 7.5%	483,872	2012 - 2043
Maine Municipal Bond Bank	.7 - 6.1%	1,571,017	2012 – 2040
Maine State Housing Authority	0.1 - 5.75%	1,454,710	2012 – 2042
Maine Turnpike Authority	3.0 - 6.0%	397,056	2012 – 2038
University of Maine System	2.0 - 5.75%	190,617	2012 – 2037

On January 31, 2012, MHHEFA issued \$27.7 million general resolution tax-exempt bonds with an average interest rate of 3.56 percent. A portion of the proceeds was used to in-substance defease \$13.0 million in outstanding various bond obligations in prior years. The net proceeds of approximately \$13.7 million were used to purchase U.S. Government securities that will provide for future payment on the debt. The economic benefits associated with the refunding inure to the respective institutions. At June 30, 2012, there were approximately \$13.3 million of in-substance defeased bonds remaining outstanding with respect to advance refunded conduit debt of bond issues of the general resolution.

In periods of declining interest rates, MHHEFA has refunded its bond obligations, reducing aggregate debt service. The proceeds of the refunding bonds were principally used to purchase U.S. Government securities that will provide for future payment on the debt. During the current year, MHHEFA issued \$119.6 million of reserve resolution bonds with interest rates of 4.36 to 4.60 percent to in-substance defease \$127.1 million of various outstanding bonds. The net proceeds of \$129.8 million were used to purchase U.S. Government securities that will provide for future payment on the debt. The economic benefits associated with the refunding inure to the

respective institutions. At June 30, 2012 the remaining balances of the conduit debt reserve resolution in-substance defeased bonds total approximately \$141.2.

On February 23, 2012, UMS issued bonds to currently refund a \$30.0 million balloon payment and to fund a new capital project. Refunding proceeds were temporarily placed into an escrow account and were used to retire the 2002 bonds on March 1, 2012.

In periods of declining interest rates, MMBB has refunded its bond obligations, reducing aggregate debt service. Where allowed, the bank retires outstanding bonds prior to their contractual maturity. In other cases, the proceeds of the refunding bonds were principally used to purchase U.S. Government securities that will provide for future payment on the debt. During the current year, MMBB issued \$26.1 million of General Tax-Exempt Bonds with an average interest rate of 3.90 percent; \$61.1 million of General Tax Exempt Series 2012 B and C Series Bonds with average interest rates of 4.85 percent and 1.58 percent, respectively; and \$17.8 million of Sewer and Water bonds with an average interest rate of 3.80 percent to in-substance defease \$105.9 million of various outstanding bonds. Although the in-substance defeasance resulted in the recognition of a deferred accounting loss of approximately \$9.5 million, MMBB in effect reduced its aggregate debt service payments by approximately \$10.3 million over the next 13 to 21 years and obtained an economic gain of approximately \$6.5 million. Future debt service requirements were reduced \$6.1 million. At June 30, 2012 the remaining balances of the General Tax-Exempt Fund Group and Clean Water Revolving Loan Fund in-substance defeased bonds total approximately \$177.3 million and \$17.8 million, respectively.

For the period ended December 31, 2011, MSHA redeemed \$122.3 million of its Mortgage Purchase Fund Group bonds from reserve funds, mortgage prepayments, surplus revenues and the proceeds of refunding bonds and \$6.3 million of its Housing Finance Revenue Fund Group bonds from subsidy funds. Mortgage Purchase Fund losses of \$.5 million and Housing Finance Revenue Fund Group losses of \$42 thousand were attributable to recognition of the bond discount and debt issuance expenses associated with the redeemed bonds.

The following table summarizes debt service requirements for outstanding bonds of the discretely presented component units:

**Component Units Principal Maturities**

(Expressed in Thousands)

<b><u>Fiscal Year Ending</u></b>	<b><u>FAME</u></b>	<b><u>MMBB</u></b>	<b><u>MCCS</u></b>	<b><u>MSHA</u></b>	<b><u>MTA</u></b>	<b><u>UMS</u></b>	<b><u>MHHEFA</u></b>
2013	\$ 806	\$ 130,516	\$ 600	\$ 9,905	\$ 13,855	\$ 9,743	\$ 55,450
2014	57	123,199	622	45,860	15,560	10,167	56,845
2015	57	119,515	649	52,130	17,470	12,259	58,725
2016	57	112,832	671	54,035	18,275	8,697	53,840
2017	58	106,569	697	50,760	19,090	9,099	54,515
2018 - 2022	301	474,819	3,946	295,835	81,145	45,507	281,475
2023 - 2027	177	332,450	4,967	304,420	83,450	37,740	265,340
2028 - 2032	-	130,141	6,061	278,015	91,220	39,360	230,400
2033 - 2037	-	7,520	5,692	245,420	35,965	14,450	165,050
2038 - 2042	-	2,415	-	129,955	10,345	-	41,825
2043 - 2047	-	-	-	1,055	-	-	-
Net unamortized premium or (deferred amount)	-	31,041	668	(12,680)	10,681	3,595	-
Total Principal Payments	<u>\$ 1,513</u>	<u>\$ 1,571,017</u>	<u>\$ 24,573</u>	<u>\$ 1,454,710</u>	<u>\$ 397,056</u>	<u>\$ 190,617</u>	<u>\$ 1,263,465</u>

**NOTE 12 - SELF-INSURANCE****A. RISK MANAGEMENT**

The State maintains several types of insurance plans and accounts for them in two funds that are combined for financial statement purposes as the Risk Management Fund. The Risk Management Division provides insurance advice and services to State governmental agencies. The State-Administered Fund offers similar services to quasi-governmental entities. Statute requires the Self-Insurance Fund to be replenished by appropriation if the fund balance drops below \$1 million. The State-Administered Fund balance has no similar provision; however, statutes prevent it from being used for any purpose other than providing insurance services.

Insurance plans offered include property, vehicle, boat and aircraft, tort, civil rights, employee bonds, police professionals, and a variety of other insurance products. All departments have elected to insure through the Risk Management Division. The Department of Transportation elected to purchase general liability insurance as of April 1, 2007; in prior fiscal years the Department of Transportation had elected not to purchase general liability insurance through the Risk Management Division.

In some cases the State purchases excess insurance to limit the State's liability for insured events. For example, coverage for property damage is \$400 million per occurrence. The State retains \$2 million of this risk per occurrence. A private insurance carrier covers the remaining risk (excess insurance). Settled claims have not exceeded insurance coverage in any of the past three fiscal years.

Coverage, risk retention, and excess insurance amounts for major types of insurance are listed below:

<u>Type of Insurance</u>	<u>Coverage Per Occurrence</u>	<u>Risk Retention Per Occurrence</u>	<u>Excess Insurance Per Occurrence</u>
Property *	\$400 million	\$ 2 million	\$400 million
Ocean Marine Boat Liability *, <sup>1</sup>	10 million	10 thousand	10 million
Boiler and Machinery*	150 million	2 million	150 million
General Liability Including			
Employment Practices	400 thousand	400 thousand	none
Police Professionals	400 thousand	400 thousand	none
Vehicular Liability <sup>2</sup>	400 thousand	400 thousand	600 thousand
Bonding	500 thousand	500 thousand	none
Foster Parents	300 thousand	300 thousand	none
Inland Marine (various policies)	500 thousand	500 thousand	none

\* These lines of insurance have commercial excess insurance covering losses above the risk retention amount up to the per occurrence amount listed. All other insurance programs are wholly self-insured.

<sup>1</sup> \$10 million is the maximum limit for per occurrence coverage. Some agencies have chosen \$400 thousand.

<sup>2</sup> Excess insurance is only for out of state travel.

The plan funds the cost of providing claims servicing and claims payment by charging a premium to each agency based on a review of past losses and estimated losses for the current period.

All risk-financing liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claims liabilities represent the estimated cost of claims as of March 31, 2012. This

cost of claims includes case reserves, the development of known claims, and the direct administrative expenses for settling specific claims.

Claims liabilities are determined on an actuarial basis. Biennial re-evaluation occurs to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount.

At March 31, 2012 and 2011, the present value of the claims payable for the State's self-insurance plan was estimated at \$3.8 million and \$3.9 million, respectively. The actuary calculated this based on the State's rate on investments.

**Risk Management Fund**  
**Changes in Claims Payable**  
 (Expressed in Thousands)

	<u>2012</u>	<u>2011</u>
Liability at Beginning of Year	\$ 3,872	\$ 3,872
Current Year Claims and		
Changes in Estimates	1,253	86
Claims Payments	1,355	86
Liability at End of Year	<u>\$ 3,770</u>	<u>\$ 3,872</u>

As of June 30, 2012, fund assets of \$24.4 million exceeded fund liabilities of \$4.4 million by \$20 million. The portion of this amount that may be reserved for catastrophic losses has not been determined.

In the past, general liability insurance coverage excluded lawsuits brought by employees. Therefore, the loss history used by the actuary to project claims did not include the effects of any such lawsuits. Effective July 1, 1999, the State added \$50 thousand coverage per occurrence for the cost of defending the State in any such lawsuits. Effective July 1, 2000, the State increased coverage to include both defense and indemnification costs up to \$400 thousand. The effect of this change has been partially incorporated into the estimate used to determine claims payable as of June 30, 2012.

#### **B. UNEMPLOYMENT INSURANCE**

The State is self-insured for unemployment compensation. As a direct reimbursement employer, the State recognizes all costs for unemployment compensation as claims are paid. These costs totaled \$2.2 million for the fiscal year ended June 30, 2012.

#### **C. WORKERS' COMPENSATION**

Workers' Compensation is accounted for in an Internal Service Fund. Interfund premiums are treated as quasi-external transactions. Each State agency is charged a premium based on the number of employees to be covered plus an added amount to reduce the unfunded liability. The Legislature, Legislative Council, and Law Library employees are self-insured for workers' compensation purposes. The State assumes the full risk of all claims filed for workers' compensation.

Claims liabilities are actuarially determined based on estimates of the ultimate cost of claims, including future claim adjustment expenses that have been incurred but not reported and claims reported but not settled. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage

awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

The balance of claims liabilities as of June 30, 2012:

**Workers' Compensation Fund**  
**Changes in Claims Payable**  
 (Expressed in Thousands)

	<u><b>2012</b></u>	<u><b>2011</b></u>
Liability at Beginning of Year	\$ 39,282	\$ 38,673
Current Year Claims and		
Changes in Estimates	11,468	8,987
Claims Payments	8,637	8,378
Liability at End of Year	<u>\$ 42,113</u>	<u>\$ 39,282</u>

Based on the actuarial calculation as of June 30, 2012, the State is liable for unfunded claims, and incurred but not reported claims, of approximately \$50.3 million. The discounted amount is \$42.1 million and was calculated based on a 3.0 percent interest rate on investments.

**D. EMPLOYEE HEALTH INSURANCE**

The employee health and retiree health insurance programs are accounted for in two Internal Service Funds. The State became self insured for employee and retiree health care coverage on July 1, 2003. A stop loss agreement with Anthem Blue Cross and Blue Shield provides catastrophic coverage for individual claims exceeding \$500 thousand.

The State retained third-party administration (TPA) services for claims administration, utilization review, and case management services. Premium equivalents are paid to the TPA based upon rates established with the technical assistance of the plan's consulting actuary.

There are two primary health plans available. HMO Choice is a point-of-service plan available to all active employees and retirees not eligible for Medicare. Smart Value is a Medicare Advantage plan available to Medicare eligible retirees. Total enrollment averaged approximately 38,800 covered individuals. This total includes 27,000 active employees and dependents, 4,400 pre-Medicare retirees and dependents, and 7,400 Medicare retirees and dependents.

Claims expenses are recorded when premiums are paid to the claims servicing contractor. At the end of the period, the total of these premium payments are compared with the actual claims paid and claims expense is adjusted for any overage or shortage with an offsetting receivable or liability recorded. For the period ending June 30, 2012 the State recorded a payable of \$10.8 million for an underpayment of health care premiums.

Expenses and liabilities for incurred but not reported claims, based on an actuarial analysis of claim lag pattern, have been recorded as liabilities in the amount of \$18.4 million. Changes in the Employee Health Insurance and Retiree Health Insurance claims liability for the fiscal year ending June 30, 2012 follows (in thousands):

	<u>Employee Health Fund</u>	<u>Retiree Health Fund</u>
Liability at Beginning of Year	\$ 14,786	\$ 4,929
Current Year Claims and		
Changes in Estimates	158,537	31,614
Claims Payments	159,493	31,933
Liability at End of Year	<u>\$ 13,830</u>	<u>\$ 4,610</u>

The table above reflects actual activity of the employee health and retiree health insurance programs. In accordance with GASB Statement No. 45, certain costs reported above were reclassified for financial statement purposes. \$44.6 million in retiree healthcare costs were reclassified from the internal service fund to the OPEB Trust Fund, a fiduciary fund. Additionally, \$22.0 million of active employee healthcare costs was reclassified from the internal service fund to the OPEB Trust Fund to reflect age-adjusted claims.

### **NOTE 13 – JOINT VENTURES**

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose. The State of Maine participates in two separate joint venture arrangements: the Tri-State Lotto Commission (Commission) and the Multi-State Lottery Association (MUSL).

#### **Tri-State Lotto Commission**

The Commission was established in 1985 pursuant to passage into law of the Tri-State Lotto Compact by the States of Maine, New Hampshire, and Vermont. The Commission is authorized and empowered to promulgate rules and regulations regarding the conduct of lottery games, including ticket prices, prizes, and the licensing of agents under Title 8 MRSA C. 16.

The Commission is composed of one member from each of the participating states. Each member State's commission appoints one of its members to serve on the Commission and each member holds office at the pleasure of his or her appointing authority. The Commission annually elects a chairman from among its members. The Commission designated that 50 percent of its sales revenue be reserved for prize awards and agent bonuses.

A prize award liability is established when the winning ticket number is selected. If no winning ticket is selected, the available jackpot is carried over to the following drawing. The Tri-State Lotto Compact requires that prizes not claimed within one year from the date of the drawing be forfeited. All expired unclaimed prizes are credited to future prize pools. The Commission funds its jackpots through annuity contracts purchased from insurance companies and U.S. Government Treasury Strips.

A proportional share of revenues and expenses are allocated to each State based on ticket sales made by each State. Exceptions are the facility's management fee, which is based on a contracted percentage of operating revenue that varies from State to State, per diem charges, advertising, and certain printing, travel, and miscellaneous costs, which are allocated based on actual charges generated by each state.

The Tri-State Lotto Commission financial report for fiscal year 2012, which may be obtained from the Bureau of Alcoholic Beverages and Lottery Operations, 8 State House Station, Augusta, ME 04333-0008, includes the following selected financial information:

**Tri-State Lotto Commission**

(Expressed in Thousands)

Current Assets	\$ 22,517
Noncurrent Assets	46,265
Total Assets	<u>\$ 68,782</u>
Current Liabilities	\$ 18,711
Long-term Liabilities	36,459
Total Liabilities	<u>55,170</u>
Designated Prize Reserves	4,346
Reserve for Unrealized Gains	9,266
Total Net Assets	<u>13,612</u>
Total Liabilities and Net Assets	<u>\$ 68,782</u>
Total Revenue	\$ 61,355
Total Expenses	41,134
Allocation to Member States	20,221
Change in Unrealized Gain on Investments Held for Resale	1,008
Change in Net Assets	<u>\$ 1,008</u>

**Multi-State Lottery Association**

The Maine State Lottery became a member of the Multi-State Lottery Association (MUSL) in July 2004. The MUSL currently has 32 member State lotteries, including the District of Columbia and the United States Virgin Islands. The MUSL is managed by a board of directors, which is comprised of the lottery directors or their designee from each of the party States, and authorized to initiate, promulgate, administer and carry out one or more lottery product offerings that will enhance the participating party lottery's revenue.

Participating lotteries sell Powerball tickets, collect all revenues, and remit prize funds to the MUSL, net of lower tier prize awards. The operating costs of the board are divided equally among all of the participating lotteries. Jackpot prizes payable in installments are satisfied through investments purchased by the MUSL. The MUSL purchases US government obligations which are held in irrevocable trusts established by the MUSL for the benefit of participating State lotteries. Each week the MUSL allocates 50 percent of sales to the prize pool. If no winning ticket is selected, the available jackpot is carried over to the following jackpot drawing.

The Multi-State Lottery Association's financial report for fiscal year 2012, which may be obtained from the Bureau of Alcoholic Beverages and Lottery Operations, 8 State House Station, Augusta, ME 04333-0008, includes the following selected information:

**Multi-State Lottery Association**

(Expressed in Thousands)

Cash and Cash Equivalents	\$ 106,685
Investments in US Government Securities	142,712
US Government Securities Held for Prize Annuities	300,465
Due from Party Lotteries	32,358
Other Assets	945
Total Assets	<u>\$ 583,165</u>
Amount Held for Future Prizes	\$ 268,775
Grand Prize Annuities Payable	310,847
Other Liabilities	3,388
	<u>583,010</u>
Net Assets, Unrestricted	155
Total Liabilities and Net Assets	<u>\$ 583,165</u>
Total Revenue	\$ 4,783
Total Expenses	4,869
Excess of revenue over expenses	(86)
Net assets, beginning	241
Net assets, ending	<u>\$ 155</u>

**NOTE 14 - RELATED PARTY TRANSACTIONS**

**PRIMARY GOVERNMENT**

Title 20-A MRSA § 11473 establishes the Maine College Savings Program Fund (the Fund), administered by the Finance Authority of Maine (FAME). The Fund holds all monies associated with the Maine College Savings Program doing business as the NextGen College Investing Plan (NextGen). NextGen is the primary program of the Fund and was established to encourage the investment of funds to be used for qualified higher education expenses at institutions of higher education. The program has been designed to comply with the requirements for treatment as a "Qualified State Tuition Program" under Section 529 of the Internal Revenue Code.

By statute, program assets are held by the Treasurer of the State of Maine. FAME and the Treasurer of the State of Maine have entered into a management agreement for the Treasurer to act as a fiduciary of the Fund. The Treasurer is responsible for investment of the Fund and determining, with the advice of the Advisory Committee on College Savings, the proper allocation of the investments of the Fund. The NextGen had approximately \$6.0 billion in net assets at June 30, 2012, which have been recorded in a Private Purpose Trust Fund on the financial statements of the State. Also see Note 16 for additional information.

The State of Maine entered into memoranda of understanding with the Wells National Estuarine Research Reserve Management Authority, a jointly governed organization, through the Bureau of Public Lands and the Bureau of Parks and Recreation. These agreements outline each entity's responsibilities in relation to the operation of the Reserve and the management of the property included within the boundaries of the Reserve. The Authority's responsibilities are generally to manage the Reserve consistent with the Wells National Estuarine Research Reserve Management Plan dated May 1991.

#### COMPONENT UNITS

The State provided appropriations and grant monies to the following discretely presented component units: University of Maine System, \$237.6 million; Maine Community College System, \$65.6 million; Maine Municipal Bond Bank, \$39.1 million; Finance Authority of Maine, \$12.0 million; and Maine State Housing Authority, \$9.9 million.

FAME administers several revolving loan funds on behalf of the State of Maine. FAME recorded these funds, which total \$29.9 million at June 30, 2012, as a liability in Amounts Held Under State Revolving Loan Programs in their fiduciary financial statements. The state reports the asset as a receivable in the Special Revenue Fund. During fiscal year 2012, the State expended \$2.8 million to FAME for State revolving loan funds. The State also transferred \$1 million from its Loan Insurance Reserves to FAME. State statute required FAME to return \$5 million of the Loan Insurance Reserves. As of June 30, 2012, \$3 million was owed to the State.

Title 20-A MRSA Chapter 419-A established the Maine State Grant Program as a fund under the jurisdiction of the Finance Authority of Maine. All grant revenues under this fund must be distributed by FAME to students who meet the eligibility requirements for a grant under this chapter. During fiscal year 2007, the NextGen College Savings grant funds and the Maine State Grant funds were pooled into the new State of Maine Grant. FAME paid approximately \$6.8 million in grants to the University of Maine System (UMS) on behalf of eligible students. The UMS reflected these as grant revenues from the State.

The Maine Turnpike Authority (MTA) pays the State for services rendered by the Maine State Police (MSP). MSP has a separate troop responsible for patrolling the Maine Turnpike. MTA pays all costs associated with that troop. For fiscal 2012, the amount billed totaled \$4.8 million.

### NOTE 15 - COMMITMENTS AND CONTINGENCIES

#### PRIMARY GOVERNMENT

##### LITIGATION

The State of Maine, its units, and its employees are parties to numerous legal proceedings, many of which are the result of normal governmental operations. In the opinion of the Attorney General and other legal counsel representing the State, in all of the cases listed, the State or its agencies or employees have valid defenses. Certain cases have the potential for liability in excess of \$1 million. Even if liability is found, the State should not expect to pay out the full amounts being sought against it in all of the cases. In any given case, however, the State could incur a large judgment.

*Temporary Assistance for Needy Families (TANF) Program – DHHS.* This matter may result in a reduction of future payments to Maine. This dispute involves whether Maine met its two-parent work participation rate for the federal fiscal year 2007. The U.S. Department of Health and Human Services has assessed a penalty against Maine of just over \$1 million. The federal agency has not required Maine to pay the penalty yet. Maine has submitted a Corrective Action Plan that has resulted in meeting the participation rate by the end of FY 2012, and the federal agency does have the ability to reduce the amount of the 2007 penalty. There is a high probability that Maine can experience this loss, but so far the federal agency has not reduced Maine's payments.

*Food Supplement – DHHS.* The State received from the federal Food and Nutrition Service a “Bill for Collection” in the amount of \$2.8 million, representing an offset applying three performance bonus awards totaling \$2.1 million to an over-issuance claim of \$4.9 million. The State has administratively appealed this claim and should learn the result of our appeal within 30 days. There is a moderate probability that the State will experience this loss.

In various lawsuits, Plaintiffs seek damages in excess of \$1 million against the State or against State officials, and various notices of claim also specify damages in excess of \$1 million where no lawsuit has been filed. In none of these lawsuits, in the view of the Attorney General, is there any reasonable possibility that the State’s liability could reach or exceed \$1 million. Therefore, these suits have not been individually identified.

Numerous workers’ compensation claims are now pending against various State agencies. Since most claims involve the possibility for significant long-term damages, and since the test for demonstrating a causal relationship between the employment and the illness or injury is not as rigorous as in ordinary civil cases, these cases involve the possibility of significant liability for the State. Since possible damages include future medical costs and wage replacements for the employee (and in some cases spouse), it is difficult to estimate the total potential liability to the State.

All other legal proceedings are not, in the opinion of management after consultation with the Attorney General, likely to have a material adverse effect on the financial position of the State.

#### **FEDERAL GRANTS**

The State receives significant financial assistance from the federal government. The receipt of grants is generally dependent upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Grants are subject to the Federal Single Audit Act. Disallowances by federal officials as a result of these audits may become liabilities of the State. The amount of expenditures that may be disallowed by the grantor agencies cannot be determined at this time.

#### **POLLUTION REMEDIATION**

The Department of Environmental Protection (DEP) and Department of Transportation (DOT) have pollution remediation obligations as defined by Governmental Accounting Standards Board (GASB) Statement No. 49. The State’s total amount of pollution remediation obligation as of June 30, 2012 is \$21.4 million. Superfund sites account for approximately \$12.2 million. Superfund is the federal government program to clean up hazardous waste sites.

The following are Superfund sites for which the State has recorded a liability for pollution remediation activities:

*Eastland Woolen Mill* – The State recorded a liability for pollution remediation activities of approximately \$1.7 million. Currently the State shares the costs with Environmental Protection Agency (EPA) in a cost-sharing ratio of 10 percent State, 90 percent EPA. Beginning in September of 2018, the State will assume 100 percent of the operation and maintenance and long-term monitoring costs.

*Eastern Surplus* – The State recorded a liability for pollution remediation activities of approximately \$5.2 million. Beginning in August of 2012, the State assumed 100 percent of the operation and maintenance and monitoring costs. As of June 30, 2012 the State has received \$2.2 million in recoveries from the Department of Defense. The State expects to recover additional costs of \$3.5 million.

*Callahan Mine* – The State recorded a liability for pollution remediation activities of approximately \$5.3 million. Currently the State shares the costs with EPA in a cost-sharing ratio of 10 percent State, 90 percent EPA. The State will assume 100 percent of the cost for the operation and maintenance of the site. The State recorded a liability for pollution remediation activities of approximately \$9.2 million (net of unrealized recoveries of \$792 thousand) related to three of five uncontrolled hazardous substance sites. The State expects to recover \$860

thousand in costs. The Uncontrolled Hazardous Substance Sites Program was created in response to the threats and potential threats to human health and the environment posed primarily by abandoned hazardous waste sites. The Uncontrolled Hazardous Substance Sites program is the State's equivalent to the Federal Superfund Program.

The State has the knowledge and expertise to estimate the remediation obligation based on prior experience in identifying and funding similar remediation activities. The standard requires the liability to be measured using the expected cash flow technique. The remediation obligation estimates are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations and other factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the State's obligation.

#### **MUNICIPAL SOLID WASTE LANDFILLS**

*Dolby Landfills* – On September 16, 2011 the State entered into an agreement with Katahdin Paper Company (KPC) to acquire the Dolby Landfills, a solid waste disposal facility, located in the Towns of Millinocket and East Millinocket. The State, as a holder of the permits, is responsible for closure and post closure monitoring and maintenance activities and costs.

The State will recognize a portion of the estimated total current cost of closure and postclosure care as an expense and a liability on the Statement of Activities and Statement of Net Assets, respectively, in each period that the landfill accepts solid waste. The \$7.4 million reported as landfill closure and postclosure care liability at June 30, 2012, represents the cumulative amount reported to date based on the use of 94% of the estimated capacity of the landfill. The State will recognize the remaining estimated cost of closure and postclosure care of \$465 thousand as the remaining estimated capacity is filled. Based on estimated annual disposal volumes of 5,000 cubic yard to 8,000 cubic yards per year, the estimated remaining landfill life would be 38 to 60 years. Actual costs may be higher due to inflation, changes in technology or changes in applicable laws or regulations.

*Cost-Sharing Program*– Title 38 MRSA §1310-F, establishes within the Department of Environmental Protection (DEP) a cost-sharing program for the closure and remediation of municipal solid waste landfills that pose an actual or potential hazard to the environment and public health. The State's obligation to provide cost sharing to municipalities is subject to the availability of funds approved for that purpose. State expenditures for landfill remediation projects totaled \$100 thousand for fiscal year 2012.

During the 2012 fiscal year, no State general funds or bond funds were expended for municipal solid waste landfill closure projects. After January 1, 2000, the State is no longer liable for the costs relating to the closure of municipal solid waste landfills, except the Commissioner may make grants or payments up to 30 percent, if they are incurred pursuant to an alternative closure schedule approved by DEP prior to January 1, 2000, and if they are specifically identified in a department order or license, schedule of compliance or consent agreement. No reimbursement applications for past closure costs are on file. Recent changes to landfill legislation Title 38 MRSA §1310-F (1-B)(E) do obligate DEP to potential landfill closure expenses at a limited number of municipal landfills until 2015. No reimbursement applications for past closure costs are currently on file. No eligible municipalities have contacted DEP regarding potential closure cost sharing at this time. The DEP estimates that potential obligations related to municipal landfill closures could range from \$1.14 million to \$5.25 million by 2015.

During the 2012 fiscal year, the State expended \$85 thousand of general obligation bond funds and \$15 thousand in solid waste funds were expended for municipal solid waste landfill remediation projects. Remediation funding, subject to the availability of funds, will continue for 90 percent of the cost of remediation for threats posed by a municipal landfill to wells or other structures constructed on or before December 31, 1999. The maximum reimbursement for remediation funding is 50 percent for structures constructed after that date. The DEP recognizes that, in the future, some landfills will require State funds for post closure investigation and remediation activities. The DEP has estimated the amount of these potential future costs could be as much as \$935 thousand,

based on current site knowledge. The increasing frequency of residential development near closed municipal landfills, and the discovery of older abandoned dump sites now occupied by residential homes could add to these future costs. The DEP currently owes \$2.6 million for recent remedial work related to issues involving gas migration from two municipal landfills in the state. The existing municipal landfill bond account has been spent. No bond funds are currently available to cover outstanding obligations. Additional bond funds will be necessary to cover current outstanding obligations as well as potential future remedial actions.

**SAND AND SALT STORAGE PROGRAM**

The State estimates the potential aggregate cost to comply with the environmental requirements associated with the Sand and Salt Storage program to be \$18.6 million. This consists of approximately \$12.6 million for State-owned facilities and approximately \$6 million for the State's share, under a cost sharing arrangement, for municipal facilities.

**POLLUTION ABATEMENT PROGRAM**

Title 38 MRSA § 411 establishes within DEP a cost-sharing program for pollution abatement projects. Subject to funding by the Legislature and the approval of the Commissioner, the State may contribute to the design, engineering and construction of municipal pollution abatement facilities. During the 2012 fiscal year, \$4.12 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 2012, amounts encumbered for pollution abatement projects totaled \$1.29 million; and general obligation bonds authorized for these projects, but not yet encumbered or expended, totaled \$2.05 million. As of June 30, 2012, DEP estimated the total cost (federal, State, and local) of future projects to be \$1 billion.

**GROUND WATER OIL CLEAN-UP FUND**

The Ground Water Oil Clean-up Fund is established in Title 38 MRSA § 569-A. Fund activities include, but are not limited to, providing insurance to public and private entities for cleanup of oil spills. The program is funded by a per barrel assessment on petroleum products imported into the State. Coverage is up to \$1 million per occurrence for both aboveground and underground storage tanks. Third party injury coverage may not exceed \$200 thousand per claimant.

A report to the legislature dated February 15, 2007, submitted by the Maine Department of Environmental Protection (DEP), identified 359 long-term remediation sites as of January 2007 that are covered by the insurance program. As of August 28, 2007 there were 377 sites on the long-term remediation priority list. Since it is not possible for the DEP to estimate the cost of remediation, the State has not accrued a liability in the financial statements.

**CONSTRUCTION COMMITMENTS**

A portion of the payment that is made to municipalities for General Purpose Aid to Local Schools is allocated for debt service. Although the outstanding indebtedness for school construction projects is debt of the municipalities, the State subsidizes 46.60 percent of the annual payments. As of June 30, 2012, outstanding commitments by municipalities for school bond issues that are eligible for State subsidy totaled \$1.1 billion.

At June 30, 2012, the Department of Transportation had contractual commitments of approximately \$147.0 million for construction of various highway projects. The State's share of that amount is expected to be approximately \$31.8 million. Of these amounts, \$8.3 million has already been accrued. Federal and State funds plus bond proceeds are expected to fund these future expenditures.

**TOBACCO SETTLEMENTS**

On November 23, 1998, Maine along with 45 other states and six civil jurisdictions (collectively known under the MSA as the "Settling States"), entered into a Master Settlement Agreement (MSA) with certain Participating Tobacco Manufacturers (PM's). The MSA is a settlement of lawsuits brought by many States against the four largest tobacco companies alleging multiple counts of misconduct and claiming punitive and compensatory damages, including a claim for all the State's Medicaid costs caused by or related to tobacco use. The MSA

includes provisions to annually compensate the State for smoking-related Medicaid costs and to impose marketing and advertising restrictions on PM's to protect public health. In this settlement, the PM's agreed, among other things, to make annual payments to the states and jurisdictions based on their allocable share of the market. In return, the states agreed to relinquish claims to further damages resulting from, among other things, Medicaid costs. Annual payments fluctuate subject to various adjustments and are partially contingent on the passage and enforcement of a State statute imposing economic conditions related to the State's public health claims on the Nonparticipating manufacturers (NPM's) in the form of an annual escrow payment due from each NPM with in-state sales. The NPM Adjustment is set forth in the Master Settlement Agreement (MSA). If the PM's claim an NPM Adjustment for a given year and prove that they lost market share to the NPM's and it is determined that the MSA was a significant factor contributing to that lost market share then an NPM Adjustment 'shall apply' unless a Settling State passed a qualifying statute and 'diligently enforced' that statute. In effect this means that the Allocated Payment to a Settling State that diligently enforced will not be reduced, but a Settling State that did not diligently enforce its qualifying statute will be subject to a reduction in its payment due to the NPM Adjustment. NPM Adjustment Due to the provisions of the MSA, a State that is found not to have diligently enforced its qualifying statute may lose up to its entire annual payment amount due to the NPM Adjustment for a given year.

The NPM Adjustment may be claimed each year and has been claimed for each completed calendar year since 2003. Frequently PM's claim entitlement to the NPM Adjustment and either withhold the amount from their annual payments, or place the amount in what is known as a 'disputed payment account'. Each year beginning in 2003 Maine's annual payments have been lower than calculated because many of the PMs have claimed entitlement to the NPM Adjustment and either withheld money or routed it to the disputed payments account. For the year 2003, the Adjustment claimed by the PM's, and calculated as set forth in the MSA, was approximately 18 percent of the total amount paid by the PM's and distributed among the Settling States. However, the total amount related to the NPM Adjustment to which the PMs are entitled is dependent on the number of non-diligent states.

In addition, in the MSA, the PM's agreed to pay \$8.6 billion in Strategic Contribution Payments (SCP) to certain states and jurisdictions as compensation for their contribution to the overall settlement. Maine's share of this total amount is approximately \$114 million. Maine will receive this amount through ten annual SCP payments starting in 2008. In April 2012, Maine received a total of \$51 million including both the annual payment amount and the strategic contribution amount.

#### **ESCHEAT PROPERTY**

The State Abandoned Property Statute requires the deposit of certain defined and unclaimed assets into a state-managed Abandoned Property Fund (Private Purpose Trust Fund). The State Statute provides that whenever the cash balance of the fund exceeds \$500 thousand at fiscal year-end, the excess must be remitted to the General Fund where it is reported as operating transfers from other funds. At June 30, 2012, the Fund included \$3.9 million of securities not yet liquidated that were not subject to transfer to the General Fund. Net collections from inception (1979) to June 30, 2012 of approximately \$178.4 million represent a contingent liability to the State since claims for refund may be filed by the owners of such property.

A liability representing the probable amount of escheat property that will be reclaimed and paid to claimants and other third parties is reported in the Fund. To the extent that the assets in the Fund are less than the claimant liability, a receivable (due from other funds) is reported in that Fund and an equal liability (due to other funds) is reported in the General Fund. At June 30, 2012, the amount reported in the Fund for claimant liability is \$34.6 million. The General Fund shows a \$30.2 million payable to the Escheat Fund.

#### **CONSTITUTIONAL OBLIGATIONS**

Article 9, § 14-A, C, and D of the Maine State Constitution provides that the State may insure the payment of mortgage loans for industrial, manufacturing, fishing, agricultural and recreational enterprises; mortgage loans for the acquisition, construction, repair and remodeling of houses owned or to be owned by members of two tribes on several Indian reservations; and mortgage loans to resident Maine veterans of the Armed Forces of the United States, including loans to a business organization owned in whole or in part by resident Maine veterans. The

aggregate of these obligations, at any one time, may not exceed \$90 million, \$1 million, and \$4 million, respectively. At June 30, 2012, loans outstanding pursuant to these authorizations are \$60.9 million, less than \$1 million, and less than \$1 million, respectively. The State has not paid, nor does it expect to pay, any amounts as a result of these authorizations as of June 30, 2012.

Article 8, § 2, of the Maine State Constitution provides that the State may secure funds, through the issuance of bonds authorized by the Governor, for loans to Maine students attending institutions of higher education. The amount of bonds issued and outstanding shall not at any one time exceed \$4 million in the aggregate. At June 30, 2012, no bonds were outstanding. The State has not paid, nor does it expect to pay, any amount as a result of this authorization as of June 30, 2012.

#### MORAL OBLIGATIONS

The State of Maine, through statute, enables certain Authorities to establish capital reserve funds. These funds may be used to secure a variety of financial undertakings including the issuance of bonds. The minimum amount of the capital reserve fund may be determined by statute or set by the Authority. The statutes may also limit the amount of debt that may be secured by the capital reserve funds, and allow the Authority to issue debt that is not secured by these funds.

On or before December first of each year, the Authority is required to certify to the Governor the amount, if any, necessary to restore any capital reserve fund to its required minimum. If there is a shortfall, the Governor is required to pay first from the "Contingent Account" the amounts necessary for restoration. The Governor shall certify any remaining unpaid amounts to the Legislature, which is then required to appropriate and pay the remaining amounts to the Authority during the then-current State fiscal year.

These moral obligations are not considered to be "full faith and credit" obligations of the State, and voter approval of the underlying bonds is not required. No capital reserve fund restorations have been made in the current or previous years.

The following summarizes information regarding outstanding moral obligations:

#### Moral Obligation Bonds

(Expressed in Thousands)

<u>Issuer</u>	<u>Bonds Outstanding</u>	<u>Required Debt Reserve</u>	<u>Obligation Debt Limit</u>	<u>Legal Citation</u>
Maine Health and Higher Educational				
Facilities Authority - debt	\$ 1,263,465	\$ 105,711	no limit	22 MRSA § 2075
conduit debt	483,872		no limit	22 MRSA § 2075
Finance Authority of Maine	35,026	-	\$ 642,000	10 MRSA §1032, 1053
	-	-	50,000	20-A MRSA §11449
	-	-	50,000	38 MRSA §2221
Loring Development Authority *	-	-	100,000	5 MRSA §13080-N
Maine Municipal Bond Bank	1,201,387	142,437	no limit	30-A MRSA §6006
Maine Educational Loan Authority *	161,790	16,042	225,000	20-A MRSA §11424
Maine State Housing Authority	1,467,390	90,087	2,150,000	30-A MRSA §4906
University of Maine System	189,135	2,870	220,000	20-A MRSA §10952
Total	<u>\$ 4,802,065</u>	<u>\$ 357,147</u>		

\* Reported in combining non-major component unit financial statements.

**CONSTRUCTION CONTRACTS**

At June 30, 2012, UMS had outstanding commitments on uncompleted construction contracts that totaled \$14.6 million.

**MORTGAGE COMMITMENTS**

Mortgage commitments are agreements to lend provided there is no violation of any term or condition of the agreement. Generally, once exercised, the loans made under the terms of such commitments are secured by a lien on the related property and other collateral as deemed necessary. At December 31, 2011, Maine State Housing Authority (MSHA) had outstanding commitments to originate multi-family loans of approximately \$52.2 million.

MSHA, under its single-family program, enters into purchase agreements to lenders to purchase mortgage loans. At December 31, 2011, single-family loans being processed by lenders totaled \$7.4 million.

**INSURED LOAN COMMITMENTS**

The Finance Authority of Maine (FAME) insures loans made by financial institutions to qualifying businesses under various insurance programs. FAME is contingently liable for the insured portion of payments due on these loans. At June 30, 2012, FAME had insurance outstanding for commercial loans under the Loan Insurance Program totaling approximately \$83.4 million. At June 30, 2012, FAME was insuring loans with an aggregate outstanding principal balance approximating \$4.9 million which were 90 or more days delinquent. The aggregate insured balance of these loans was approximately \$2.6 million at June 30, 2012. In addition, FAME has entered into commitments to insure loans at some future date. At June 30, 2012, these commitments under the Loan Insurance Program were approximately \$13.0 million.

**NOTE 16 - SUBSEQUENT EVENTS****COMPONENT UNITS**

In January 2012, MSHA was awarded \$.5 million as part of a settlement in connection with an investigation by the United States Securities and Exchange Commission (SEC) into the bidding practices involving investment bond proceeds by a banking and financial services company. Proceeds from this settlement are to be distributed within 60 days of the final order. MSHA received \$1.4 million in 2011 as part of a similar SEC investigation and settlement with a different banking and financial services company.

On March 1, 2012 MSHA communicated to the Trustee its intention to redeem on April 10, 2012 at par \$44.0 million of bonds in the General Mortgage Purchase Bond Resolution.

Until June 30, 2012, the NextGen College Investing Plan is reported as a private purpose trust for the State. Pursuant to a change in Maine law which became effective September 28, 2011, beginning July 1, 2012, the fund will be held by FAME, which shall invest it under the direction of and with the advice of the Advisory Committee on College Savings. Once the law becomes effective, FAME will report the \$6.0 billion in assets in a private purpose trust fund.



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# **REQUIRED SUPPLEMENTARY INFORMATION**

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## Required Supplementary Information - Budgetary Reporting

### STATE OF MAINE BUDGETARY COMPARISON SCHEDULE MAJOR GOVERNMENTAL FUNDS

Fiscal Year Ended June 30, 2012  
(Expressed in Thousands)

	General Fund				Highway Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues</b>								
Taxes	\$ 2,829,762	\$ 2,865,232	\$ 2,900,672	\$ 35,440	\$ 220,061	\$ 218,089	\$ 219,474	\$ 1,385
Assessments and Other	102,673	101,488	102,887	1,399	87,823	88,027	88,957	930
Federal Grants	3,351	3,337	3,377	40	-	-	-	-
Service Charges	49,680	51,537	49,008	(2,529)	6,162	4,301	6,126	1,825
Income from Investments	258	107	403	296	32	122	141	19
Miscellaneous Revenue	41,969	47,726	15,203	(32,523)	192	131	693	562
<b>Total Revenues</b>	<u>3,027,693</u>	<u>3,069,427</u>	<u>3,071,550</u>	<u>2,123</u>	<u>314,270</u>	<u>310,670</u>	<u>315,391</u>	<u>4,721</u>
<b>Expenditures</b>								
Governmental Support and Operations	266,302	264,583	259,280	5,303	36,430	36,851	33,545	3,306
Economic Development & Workforce Training	34,722	34,666	33,529	1,137	-	-	-	-
Education	1,379,042	1,385,470	1,365,933	19,537	-	-	-	-
Health and Human Services	1,030,347	1,130,724	1,103,849	26,875	-	-	-	-
Business Licensing & Regulation	-	-	-	-	-	-	-	-
Natural Resources Development & Protection	68,727	68,528	65,763	2,765	33	33	33	-
Justice and Protection	276,970	280,632	261,702	18,930	31,106	30,845	28,634	2,211
Arts, Heritage & Cultural Enrichment	7,457	7,463	7,068	395	-	-	-	-
Transportation Safety & Development	-	-	-	-	253,379	300,621	274,829	25,792
<b>Total Expenditures</b>	<u>3,063,567</u>	<u>3,172,066</u>	<u>3,097,124</u>	<u>74,942</u>	<u>320,948</u>	<u>368,350</u>	<u>337,041</u>	<u>31,309</u>
<b>Revenues Over (Under) Expenditures</b>	<u>(35,874)</u>	<u>(102,639)</u>	<u>(25,574)</u>	<u>77,065</u>	<u>(6,678)</u>	<u>(57,680)</u>	<u>(21,650)</u>	<u>36,030</u>
<b>Other Financing Sources (Uses)</b>								
Operating Transfers Net	(82,189)	(79,407)	49,044	128,451	(3,204)	(998)	19,374	20,372
Proceeds from Pledged Future Revenues	-	-	-	-	-	-	-	-
<b>Net Other Financing Sources (Uses)</b>	<u>(82,189)</u>	<u>(79,407)</u>	<u>49,044</u>	<u>128,451</u>	<u>(3,204)</u>	<u>(998)</u>	<u>19,374</u>	<u>20,372</u>
<b>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</b>	<u>\$ (118,063)</u>	<u>\$ (182,046)</u>	<u>\$ 23,470</u>	<u>\$ 205,516</u>	<u>\$ (9,882)</u>	<u>\$ (58,678)</u>	<u>\$ (2,276)</u>	<u>\$ 56,402</u>
Fund Balances at Beginning of Year			196,146				63,377	
Fund Balances at End of Year			<u>\$ 219,616</u>				<u>\$ 61,101</u>	

Federal Funds				Other Special Revenue Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
\$ -	\$ -	\$ -	\$ -	\$ 269,345	\$ 266,245	\$ 258,819	\$ (7,426)
4	4	1	(3)	163,842	166,651	137,546	(29,105)
2,704,172	3,371,127	2,702,662	(668,465)	17,620	25,286	10,789	(14,497)
504	462	451	(11)	210,494	211,040	188,256	(22,784)
-	-	18	18	1,461	1,460	324	(1,136)
-	-	883	883	144,419	164,735	135,210	(29,525)
<u>2,704,680</u>	<u>3,371,593</u>	<u>2,704,015</u>	<u>(667,578)</u>	<u>807,181</u>	<u>835,417</u>	<u>730,944</u>	<u>(104,473)</u>
10,335	25,428	13,258	12,170	130,548	143,729	132,305	11,424
123,590	270,180	219,550	50,630	77,341	82,152	68,995	13,157
251,711	320,053	221,739	98,314	17,742	17,941	11,864	6,077
1,955,928	2,265,383	1,891,851	373,532	508,669	560,274	423,638	136,636
1,202	1,399	441	958	74,184	73,496	63,526	9,970
60,923	70,075	47,657	22,418	125,104	133,864	83,371	50,493
122,012	134,408	47,869	86,539	38,407	44,946	35,133	9,813
4,106	4,342	3,585	757	1,768	1,756	881	875
188,544	266,487	213,675	52,812	82,502	119,096	86,918	32,178
<u>2,718,351</u>	<u>3,357,755</u>	<u>2,659,625</u>	<u>698,130</u>	<u>1,056,265</u>	<u>1,177,254</u>	<u>906,631</u>	<u>270,623</u>
(13,671)	13,838	44,390	30,552	(249,084)	(341,837)	(175,687)	166,150
(42,711)	(49,129)	(28,374)	20,755	183,163	212,732	28,723	(184,009)
				69,198	103,198	78,148	(25,050)
(42,711)	(49,129)	(28,374)	20,755	252,361	315,930	106,871	(209,059)
<u>\$ (56,382)</u>	<u>\$ (35,291)</u>	\$ 16,016	<u>\$ 51,307</u>	<u>\$ 3,277</u>	<u>\$ (25,907)</u>	\$ (68,816)	<u>\$ (42,909)</u>
		(9,614)				220,454	
		<u>\$ 6,402</u>				<u>\$ 151,638</u>	



# Required Supplementary Information - Budgetary Reporting

## STATE OF MAINE BUDGETARY COMPARISON SCHEDULE BUDGET TO GAAP RECONCILIATION

Fiscal Year Ended June 30, 2012  
(Expressed in Thousands)

	<u>General Fund</u>	<u>Highway Fund</u>	<u>Federal Funds</u>	<u>Special Revenue Fund</u>
Fund Balances - Non-GAAP Budgetary Basis	\$ 219,616	\$ 61,101	\$ 6,402	\$ 151,638
<b>Basis Differences</b>				
Revenue Accruals/Adjustments:				
Taxes Receivable	240,065	5,917	-	9,825
Intergovernmental Receivables	-	-	530,316	-
Other Receivables	35,272	3,575	72,270	64,450
Inventories	1,411	-	483	-
Due from Component Units	3,000	-	-	45,547
Due from Other Funds	14,861	9,074	4,315	239,330
Other Assets	1,552	45	319	657
Deferred Revenues	(235,827)	(8,623)	(2,214)	(25,960)
Total Revenue Accruals/Adjustments	<u>60,334</u>	<u>9,988</u>	<u>605,489</u>	<u>333,849</u>
Expenditure Accruals/Adjustments:				
Accounts Payable	(296,601)	(25,120)	(502,735)	(25,100)
Due to Component Units	(1,409)	1	(4,749)	(2,134)
Accrued Liabilities	(16,746)	(6,673)	(6,315)	(8,050)
Taxes Payable	(167,252)	(8)	-	-
Intergovernmental Payables	(3,792)	-	(70,539)	-
Due to Other Funds	(144,085)	(3,180)	(12,425)	(6,953)
Total Expenditure Accruals/Adjustments	<u>(629,885)</u>	<u>(34,980)</u>	<u>(596,763)</u>	<u>(42,237)</u>
Fund Balances - GAAP Basis	<u>\$ (349,935)</u>	<u>\$ 36,109</u>	<u>\$ 15,128</u>	<u>\$ 443,250</u>

## **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY REPORTING**

### **Statutory/Budgetary Presentation**

In accordance with statute, the Governor presents a biennial budget for the General Fund and special revenue funds to the Legislature for enactment or revision. Effective November 27, 1995, a State Constitutional Amendment provided the Governor a “line item” veto of dollar amounts, allowing a dollar substitution for those amounts disapproved, as long as an appropriation or allocation is not increased (or a deappropriation or deallocation decreased) either in the specified line or in any other line in the legislative document. Another Constitutional Amendment requires the State to fund at least 90 percent of the annual cost of future mandates imposed on local governments; any exception requires a two-thirds vote of the elected members of the House and Senate.

Once passed and signed, the budget becomes the financial plan for the next biennium. It includes proposed expenditures for all departments and agencies, interest and debt redemption charges, and expenditures for capital projects to be undertaken and executed during each fiscal year. The budget also includes anticipated revenues and any other means of financing expenditures. The State Budget Officer is required to use the revenue projections of the Revenue Forecasting Committee in preparing the General Fund and Highway Fund budgets.

Exceptional circumstances do not apply to new programs or program expansions that go beyond existing program criteria and operation.

Detailed budgetary control is maintained at the program and line category level at which appropriations and allocations are approved by the Legislature, principally through a quarterly allotment system. The State Budget Officer and the Governor must approve budget revisions during the year, reflecting program changes or intradepartmental administrative transfers. Except in specific instances, only the Legislature may transfer appropriations between departments. Increases in appropriation, allocation, or funding for new programs are presented to the Legislature as a supplemental budget or separate pieces of legislation. For the year ended June 30, 2012, the legislature increased appropriations to the General Fund by \$86.6 million.

Governmental funds use encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve a portion of the applicable appropriation or allocation. Unencumbered appropriations in the General Fund and Highway Fund lapse at June 30 unless, by law, they are carried forward to a subsequent year. In the State’s accounting system, amounts carried forward are shown as reservations of fund balance. For financial statement purposes unless amounts would create deficits, encumbrances outstanding at June 30 are shown as restrictions, commitments or assignments of fund balance.

The State’s budget is prepared primarily on a cash basis. Sales, income, corporate and fuel taxes include a modified accrual basis adjustment to recognize revenues that are expected to be collected within 60 days of the end of the fiscal year.

The Budgetary Comparison Schedule is presented as Required Supplementary Information (RSI) in this report. Actual amounts in this schedule are presented on a budgetary basis. Because this basis differs from accounting principles generally accepted in the United States of America (GAAP), a reconciliation between the budgetary and GAAP basis is presented in the RSI.

The various funds and programs within funds utilize a number of different budgetary control processes. Annual legislative appropriations and revenue estimates are provided for most “operating” funds.

The original executive budget and original legislative appropriations provide general purpose (unrestricted) revenue estimates in order to demonstrate compliance with constitutional provisions. Revenues restricted by law or outside grantors to a specific program are estimated at a level of detail consistent with controlling related expenditure accounts.

For programs financed from restricted revenues, spending authorization is generally contingent upon recognition of the related revenue. Reductions of spending authority occur if revenues fall short of estimates. If revenues exceed the estimate, supplemental appropriations are required before the additional resources can be spent.

The budgetary comparison schedule presented for the General Fund, the Highway Fund, the Federal Fund, and the Other Special Revenue Fund presents the original and final appropriated budgets for fiscal year 2012-2013, as well as the actual resource inflows, outflows and fund balances stated on the budgetary basis.

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriation bills as of June 20, 2011, and includes encumbrances carried forward from the prior year.

Generally accepted accounting principles (GAAP) require that the final legal budget be reflected in the “final budget” column. Therefore updated revenue estimates available for appropriations as of June 30, 2012 rather than the amounts shown in the original budget, are reported.

The final appropriations budget represents original and supplemental appropriations, carry-forwards, approved transfers, and executive order reductions. Expenditures, transfers out, other financing uses, and encumbrances are combined and classified by policy area rather than being reported by character and function as shown in the GAAP statements. This policy area classification is used to better reflect organizational responsibility and to be more consistent with the budget process.

#### **Compliance at the Legal Level of Budgetary Control**

The Budgetary Comparison Schedules by Agency depict budgeted to actual expenditures at the Department level, which is the legal level of budgetary control for all governmental funds. The schedules provide further detail at the agency level within departments for transparency.

## Required Supplementary Information – State Retirement Plan

### Schedule of Funding Progress

(Expressed in Thousands)

	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/(c)
Actuarial Valuation June 30,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) – Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL (as a percentage of covered payroll)
2012	8,939,788	11,605,891	2,666,103	77.0%	1,727,667	154.3%
2011	8,795,250	11,335,259	2,540,009	77.6%	1,652,576	153.7%
2010	8,369,772	12,676,367	4,306,595	66.0%	1,681,593	256.1%
2009	8,383,148	12,377,262	3,994,114	67.7%	1,678,931	237.9%
2008	8,691,076	11,721,272	3,030,196	74.1%	1,628,421	186.1%
2007	8,302,467	11,209,708	2,907,241	74.1%	1,595,200	182.2%
2006	7,556,515	10,598,346	3,041,831	71.3%	1,546,316	196.7%

Major changes in actuarial assumptions include the following:

Valuation date	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2008
Former actuarial assumptions:				
Retirement assumption	Lowered to reflect the closing of the retirement window for early retiree health coverage			
Version of actuarial cost method	New entrant		No changes	
Investment rate of return		7.25%	were made	7.75%
Projected salary increases		3.50%	to 2008	4.75% - 10.00%
Includes inflation at		3.50%	plan	4.50%
Cost of living adjustments		2.25%	assumptions	3.75%

The June 30, 2011 valuation included changes to the plan and actuarial assumptions. For members with fewer than 5 years of creditable service on July 1, 2011, the normal retirement age increased to 65. Projected salary increases include a 3.5% across the board increase at each year of service. The first 2 fiscal years assume a flat 1.5% pay increase across the board. The cap on annual cost of living adjustments was lowered from 4% per year to 3% per year on the first \$20,000 of annual benefit (indexed). No COLA will be made until September 2014.

The Maine Public Retirement System (the System), which is a component unit of the State, is the administrator of an agent, multiple-employer, defined benefit public employee retirement system. The June 30, 2012 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The System amortizes the unfunded liability of the State and Teacher plan over a closed period that cannot be longer than 31 years from July 1, 1997 but may be, and at certain times has been, shorter than that period. In 2000, the amortization period was reduced to a 19-year period from June 30, 2000. In 2004, the Legislature relengthened the period to 25 years, the full extent of the then-remaining Constitutional years for the 2004-2005 biennium, and reshortened the period effective July 1, 2005 to the 13 years that will then remain in the earlier shortened period. In 2005, the State repealed the “sunset” provision, with the result that the period for reduction of these unfunded actuarial liabilities continues to the full extent permitted by the State constitution, or June 30, 2028. The contribution rate in

effect for 2012 was determined by the 2010 valuation, and reflects the relengthened amortization period. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 5 years remained at June 30, 2012.

Note: Unless plan changes occur, actuarial valuations are performed biennially on even years. Rollforward valuations occur on odd numbered years. The latest actuarial valuation occurred June 30, 2012.

## Required Supplementary Information – Other Post-employment Benefit Plans

### Schedules of Funding Progress

#### Healthcare Plans

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c UAAL (as a percentage of covered payroll)
State Employees (in millions)	June 30, 2012	136	1,316	1,180	10.33%	502	235.06%
	June 30, 2011	112	1,544	1,432	7.25%	567	252.56%
	June 30, 2010	103	1,450	1,347	7.10%	549	245.36%
Teachers (in millions)	June 30, 2012	0	665	665	0.00%	1,156	57.53%
	June 30, 2011	0	801	801	0.00%	1,098	72.95%
	June 30, 2010	0	994	994	0.00%	1,064	93.42%
First Responders (in thousands)	June 30, 2011	0	21,921	21,921	0.00%	42,242	51.89%
	June 30, 2010	0	19,158	19,158	0.00%	53,821	35.60%
	June 30, 2009	0	20,063	20,063	0.00%	51,876	38.67%

#### Group Life Insurance Plans

(Expressed in Thousands)							
Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c UAAL (as a percentage of covered payroll)
State Employees	June 30, 2012	24,700	80,900	56,200	30.53%	553,500	10.15%
	June 30, 2011	24,400	78,700	54,300	31.00%	623,600	8.71%
	June 30, 2010	19,700	71,500	51,800	27.55%	615,600	8.41%
Teachers	June 30, 2012	30,100	71,000	40,900	42.39%	630,800	6.48%
	June 30, 2011	27,800	67,600	39,800	41.12%	659,100	6.04%
	June 30, 2010	21,400	60,400	39,000	35.43%	650,600	5.99%

**Required Supplementary Information – Other Post-employment Benefit Plans (continued)**

**Schedule of Employer Contributions**  
(Expressed in Thousands)

Fiscal Year Ended June 30,	Employer Contributions					
	State Employees		Teachers		First Responders	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
Healthcare - 2012	\$126,000	57.94%	\$55,000	40.00%	\$1,350	32.15%
Healthcare - 2011	120,000	70.84%	61,000	29.51%	916	57.10%
Healthcare - 2010	90,000	61.12%	58,000	32.76%	1,105	33.31%
Group Life - 2012	3,250	144.13%	2,959	100.00%	N/A	N/A
Group Life - 2011	4,268	89.20%	2,532	100.00%	N/A	N/A
Group Life - 2010	4,383	89.98%	2,417	100.00%	N/A	N/A

## Required Supplementary Information – Information about Infrastructure Assets Reported Using the Modified Approach

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Assets accounted for under the modified approach include 8,828 highway miles or 17,993 lane miles of roads and 2,963 bridges having a total deck area of 11.8 million square feet that the State is responsible to maintain.

In order to utilize the modified approach, the State is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the State.
- Document that the assets are being preserved at, or above, the established condition level.

Roads and bridges maintained by the Department of Transportation are accounted for using the modified approach.

### Highways

#### **Measurement Scale for Highways**

The Maine Department of Transportation (MDOT) uses six indicators to determine the condition of highway adequacy. The six indicators and their relative point weighting are listed in the table below.

Data Element	Point Rating (%)	Description
Pavement Condition Rating (PCR)	45	PCR is defined as the composite condition of the pavement on a roadway only, and is compiled from the severity and extent of pavement distresses such as cracking, rutting and patching. It is the key indicator used to determine the optimum time to treat a particular section of road. Points decrease as PCR decreases.
Safety	20	Statewide crash rates are used to allocate points. Locations with high rates get fewer points.
Backlog (Built v Unbuilt roadway)	15	A “Built” road is one that has been constructed to a modern standard, usually post 1950. This includes adequate drainage, base, and pavement to carry the traffic load, and adequate sight distance and width to meet current safety standards. “Unbuilt” (backlog) is defined as a roadway section that has not been built to modern standards. Yes or No (15 or 0).
Annual Average Daily Traffic divided by the hourly highway capacity (AADT/C)	10	This ratio measures how intensely a highway is utilized. As a highway facility’s AADT/C ratio increases, the average speed of vehicles on that facility tends to decrease. This decrease in average speed is evidence of reduced mobility. As congestion increases, points decrease (0-10).
Posted Speed	5	Lower speeds equal fewer points.
Paved Shoulder	5	In general, roadways with paved shoulders perform at a higher level and last longer than those without shoulders or with only gravel shoulders. Yes or No (5 or 0).
	100	

## **Bridges**

MDOT uses four separate factors to obtain a numerical value used to indicate the ability of bridges to remain in service at the current level of usage. The numeric value is a percentage ranging from 0% to represent an entirely insufficient or deficient bridge, and 100% to represent an entirely sufficient bridge. The four indicators and their relative point weighting are listed in the table below. The composite numeric value is based on the sufficiency rating formula in the Recording and Coding Guide for Structure Inventory and Appraisal of the Nation's Bridges.

Data Element	Point Rating (%)	Description
Structural Adequacy and Safety	55	This category considers inventory rating, superstructure, substructure and culverts.
Serviceability and Functional Obsolescence	30	Serviceability and functional obsolescence that addresses the number of lanes, average daily traffic, roadway width, bridge width, deck condition, under clearances, waterway adequacy, alignment, and defense highway designation.
Essentiality for Public Use	15	This considers detour length, average daily traffic, and defense highway designation.
Special Reductions	(13)	The sufficiency rating also includes consideration of special reductions for detour length, safety features, and type of structure.

### **Assessed Conditions**

The following table shows adequacy ratings for maintenance levels from Excellent to Poor.

Adequacy Rating	Total
Excellent	80-100
Good	70-80
Fair	60-70
Poor	0-60

MDOT intends to maintain highways and bridges at an adequacy rating of 60 or higher. The following table shows adequacy ratings achieved by MDOT.

Fiscal Year	Highways	Bridges
2012	75.4	79.0
2011	74.8	78.0
2010	76.2	79.0

### Comparison of Estimated-to-Actual Preservation Costs

The following table presents the State's preservation costs for the past five fiscal years. It also shows the estimate of spending necessary to preserve and maintain the roads and bridges at, or above, a sufficiency rating of 60 for both highways and bridges (in millions).

Actual Preservation Costs (Amounts in millions)					
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Highways .....	\$ 91.5	\$ 101.4	\$ 68.6	\$ 74.5	\$ 80.0
Bridges .....	13.2	9.3	9.2	1.6	1.6
<b>Total .....</b>	<b><u><u>\$ 104.7</u></u></b>	<b><u><u>\$ 110.7</u></u></b>	<b><u><u>\$ 77.8</u></u></b>	<b><u><u>\$ 76.1</u></u></b>	<b><u><u>\$ 81.6</u></u></b>

Estimated Preservation Costs (Amounts in millions)					
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Highways .....	\$ 155.0	\$ 86.1	\$ 48.5	\$ 55.8	\$ 97.7
Bridges .....	30.0	7.9	6.5	1.2	2.0
<b>Total .....</b>	<b><u><u>\$ 185.0</u></u></b>	<b><u><u>\$ 94.0</u></u></b>	<b><u><u>\$ 55.0</u></u></b>	<b><u><u>\$ 57.0</u></u></b>	<b><u><u>\$ 99.7</u></u></b>

### Transportation Bonds

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 645, PL 2009, \$13.7 million in General fund bonds was spent during FY2012.

**GOVERNMENTAL FUNDS**  
**COMBINED STATEMENT OF RESOURCES, EXPENDITURES AND CHANGES IN FUND EQUITY**  
**For the Years Ended June 30**  
**(thousands \$000's)**

	2008 <sup>(1)</sup>	2009	2010	2011 <sup>(1)</sup>	2012
<b>Revenues</b>					
Taxes					
Sales, Use and Service Provider Tax	\$ 1,157,608	\$ 1,083,760	\$ 1,073,443	\$ 1,095,072	\$ 1,154,480
Individual Income Tax	1,521,890	1,302,912	1,368,185	1,490,879	1,513,710
Corporate Income Tax	216,503	184,939	183,751	251,345	271,943
Cigarette and Tobacco Tax	150,499	144,425	149,067	145,229	139,729
Inheritance and Estate Tax	39,891	31,819	31,210	49,323	44,866
Gasoline, Use Fuel and Motor Carrier Tax	229,600	220,526	241,424	239,184	242,123
Insurance Tax	102,032	92,353	109,689	93,029	112,291
Public Utilities Tax	49,564	46,300	46,340	49,555	39,418
Other Industry or Occupation Taxes	182,327	194,516	226,940	216,974	217,902
Real Estate Transfer Tax	24,685	17,708	19,186	19,621	18,644
Unorganized Territories Property Tax	19,159	21,127	27,062	26,700	26,309
Other Taxes	<u>15,003</u>	<u>14,963</u>	<u>35,679</u>	<u>11,740</u>	<u>11,027</u>
Total Taxes	3,708,762	3,355,349	3,511,976	3,688,652	3,792,442
From Federal Government	2,211,181	2,861,697	3,139,053	3,064,954	2,705,040
From Cities, Towns and Counties	13,672	22,167	13,448	13,890	8,409
From Private Sources	189,838	197,675	184,425	207,509	231,132
Service Charge for Current Services	157,515	163,369	181,276	138,689	132,505
Fines, Forfeitures & Penalties	55,033	54,854	44,684	39,476	37,477
Vehicle Registration and Drivers Licenses	89,096	94,938	82,619	100,483	103,635
Hunting, Fishing and Related Licenses	17,917	17,587	18,124	17,934	18,235
Transferred from Bureau of Alcoholic Beverages	-	-	-	-	-
Transferred from Lottery Commission	49,491	49,839	52,202	49,548	53,786
Transferred from Other Funds	30,998	33,130	20,515	16,255	22,130
Transferred for Revenue Sharing	(135,820)	(102,134)	(122,809)	(131,302)	(137,228)
Transferred for Tax Relief (2)			(113,605)	(113,935)	(115,336)
Income from Investments	5,861	4,944	1,339	501	1,650
Other Revenues	<u>30,266</u>	<u>15,695</u>	<u>24,149</u>	<u>483</u>	<u>21,611</u>
	2,715,049	3,413,760	3,525,420	3,404,485	3,083,046
<b>Other Financial Resources</b>					
Proceeds of General Obligation Bonds	108,590	141,469	58,391	120,331	55,775
Other	<u>29,219</u>	<u>69,619</u>	<u>103,736</u>	<u>121,312</u>	<u>94,433</u>
<b>Total Revenues and Resources</b>	6,561,621	6,980,197	7,199,523	7,334,780	7,025,696
<b>Expenditures</b>					
Governmental Support & Operations	458,393	442,218	431,744	388,285	410,477
Arts, Heritage & Cultural Enrichment	12,710	13,185	11,772	10,848	11,620
Business Licensing & Regulation	65,603	64,887	76,125	65,781	63,967
Economic Development & Workforce Training	151,141	223,104	434,770	412,673	339,837
Education	1,668,137	1,705,111	1,731,496	1,713,750	1,609,206
Health & Human Services	3,055,914	3,462,723	3,440,041	3,351,536	3,419,603
Justice & Protection	396,502	411,042	401,711	393,314	373,338
Natural Resources Development & Protection	198,049	220,264	220,084	207,649	203,326
Transportation Safety & Development	<u>522,473</u>	<u>547,269</u>	<u>567,864</u>	<u>672,108</u>	<u>630,384</u>
Total Expenditures	<u>6,528,922</u>	<u>7,089,802</u>	<u>7,315,607</u>	<u>7,215,944</u>	<u>7,061,758</u>
Excess Resources Over (Under) Expenditures	32,699	(109,606)	(116,084)	118,836	(36,062)
<b>Fund Equity July 1 of preceding calendar year</b>	<u>660,728</u>	<u>693,428</u>	<u>583,822</u>	<u>390,479</u>	<u>509,315</u>
<b>Fund Equity June 30</b>	<u>\$ 693,427</u>	<u>\$ 583,822</u>	<u>\$ 467,738</u>	<u>\$ 509,315</u>	<u>\$ 473,253</u>

(1)2008 - Fund Equity for General Fund as restated; 2011 - Fund Equity for Highway Fund as restated.

(2) Prior to 2010, transferred amounts for tax relief programs were reported as a net amount in the Individual Income Tax line. Prior year amounts were not restated. Therefore, comparisons between 2010 and prior years may not be possible in this instance.

**GENERAL FUND**  
**COMBINED STATEMENT OF RESOURCES, EXPENDITURES AND CHANGES IN FUND EQUITY**  
**For the Years Ended June 30**  
**(thousands \$000's)**

	2008 <sup>(5)</sup>	2009	2010	2011	2012
<b>Revenues</b>					
<b>Taxes</b>					
Sales, Use and Service Provider Tax	\$ 1,035,158	\$ 974,636	\$ 954,025	\$ 976,359	\$ 1,029,513
Individual Income Tax	1,443,468	1,242,506	1,298,036	1,415,284	1,434,217
Corporate Income Tax	207,093	178,961	175,292	241,225	260,452
Cigarette and Tobacco Tax	150,499	144,425	149,067	145,229	139,729
Inheritance and Estate Tax	39,891	31,819	31,210	49,323	44,866
Insurance Tax	72,293	79,770	80,019	76,930	82,986
Public Utilities Tax	16,858	19,536	17,524	17,668	10,870
Other Industry or Occupation Taxes	50,340	43,502	59,597	52,270	50,783
Real Estate Transfer Tax	17,465	17,185	12,181	13,816	8,935
Unorganized Territories Property Tax	12,217	12,634	13,218	13,382	10,727
Other Taxes	<u>3,809</u>	<u>3,752</u>	<u>30,792</u>	<u>6,449</u>	<u>6,419</u>
<b>Total Taxes</b>	<b>3,049,092</b>	<b>2,748,726</b>	<b>2,820,961</b>	<b>3,007,935</b>	<b>3,079,497</b>
From Federal Government	11,040	12,456	9,308	10,379	1,904
From Cities, Towns and Counties	163	143	187	219	282
From Private Sources	8,023	7,526	8,697	8,923	9,650
Service Charges for Current Services	26,157	24,653	33,329	30,557	35,957
Fines, Forfeitures & Penalties	44,466	44,024	32,787	28,513	25,121
Hunting, Fishing and Related Licenses	15,683	15,379	16,277	15,864	15,875
Transferred from Bureau of Alcoholic Beverages	-	-	-	-	-
Transferred from Lottery Commission	49,491	49,839	52,202	49,548	53,786
Transferred from Other Funds	18,823	9,605	17,868	37,396	45,725
Transferred for Revenue Sharing	(135,820)	(102,134)	(122,809)	(131,302)	(137,228)
Transferred for Tax Relief (6)	-	-	(113,605)	(113,935)	(115,336)
Income from Investments	1,074	1,100	265	278	156
Other Revenues	<u>21,724</u>	<u>7,701</u>	<u>23,456</u>	<u>7,998</u>	<u>(4,932)</u>
	60,324	70,292	(42,037)	(55,563)	(69,040)
<b>Other Financial Resources</b>					
Proceeds of General Obligation Bonds	-	-	-	-	-
Other	<u>31,074</u>	<u>141</u>	<u>76,823</u>	<u>(32,959)</u>	<u>110,144</u>
<b>Total Revenues and Resources</b>	<b>3,140,490</b>	<b>2,819,159</b>	<b>2,855,747</b>	<b>2,919,414</b>	<b>3,120,601</b>
<b>Expenditures</b>					
Governmental Support & Operations (1)	245,992	239,485	251,522	234,222	259,280
Arts, Heritage & Cultural Enrichment	8,682	8,084	7,392	7,078	7,068
Business Licensing & Regulation	2	-	26	-	-
Economic Development & Workforce Training	38,253	37,030	35,788	34,495	33,529
Education (2)	1,471,239	1,455,087	1,419,788	1,387,720	1,365,933
Health & Human Services (3)	985,139	929,836	802,461	845,417	1,103,849
Justice & Protection	262,299	271,853	276,030	268,880	261,702
Natural Resources Development & Protection	72,957	68,114	67,360	64,864	65,763
Transportation Safety & Development (4)	-	-	-	7,000	-
<b>Total Expenditures</b>	<b><u>3,084,563</u></b>	<b><u>3,009,489</u></b>	<b><u>2,860,367</u></b>	<b><u>2,849,676</u></b>	<b><u>3,097,124</u></b>
Excess Resources Over (Under) Expenditures	55,927	(190,330)	(4,620)	69,738	23,477
<b>Fund Equity July 1 of preceding calendar year</b>	<b><u>265,424</u></b>	<b><u>321,351</u></b>	<b><u>131,021</u></b>	<b><u>126,401</u></b>	<b><u>196,139</u></b>
<b>Fund Equity June 30</b>	<b><u>\$ 321,351</u></b>	<b><u>\$ 131,021</u></b>	<b><u>\$ 126,401</u></b>	<b><u>\$ 196,139</u></b>	<b><u>\$ 219,616</u></b>

- (1) Governmental Support & Operations includes the Governor's Office, the State Treasurer's Office and the Attorney General, Audit, Finance and Administration, Judicial, Legislative and State Departments.
- (2) Education includes the Education Department, the Maine Technical College System, the Maine Maritime Academy and the University of Maine System.
- (3) Health & Human Services includes the Human Services, Mental Health and Retardation and Corrections Departments.
- (4) Transportation Safety & Development includes the Transportation Department.
- (5) Fund Equity as restated.
- (6) Prior to 2010, transferred amounts for tax relief programs were reported as a net amount in the Individual Income Tax line. Prior year amounts were not restated. Therefore, comparisons between 2010 and prior years may not be possible in this instance.

**HIGHWAY FUND**  
**STATEMENT OF RESOURCES, EXPENDITURES AND CHANGES IN FUND EQUITY**  
**For the Years Ended June 30**  
**(thousands \$000's)**

	2008	2009	2010	2011 <sup>(3)</sup>	2012
<b>Revenues</b>					
Taxes					
Gasoline, Use Fuel and Motor Carrier Tax	\$ 225,235	\$ 216,216	\$ 219,191	\$ 217,034	\$ 219,728
Other Taxes	<u>1,748</u>	<u>1,785</u>	<u>952</u>	<u>1,291</u>	<u>1,030</u>
Total Taxes	226,983	218,001	220,143	218,325	220,758
From Federal Government	465	3			
Service Charges for Current Services	5,038	5,201	4,796	4,304	4,270
Fines, Forfeitures & Penalties	1,183	1,014	1,440	1,145	1,044
Vehicle Registration and Drivers Licenses	89,096	94,938	80,965	83,886	86,628
Income from Investments	1,152	480	162	125	141
Other Revenues	<u>4,188</u>	<u>1,785</u>	<u>3,684</u>	<u>3,458</u>	<u>4,120</u>
	101,122	103,422	91,047	92,918	96,203
<b>Other Financial Resources</b>					
Proceeds of General Obligation Bonds	-	-	-	-	-
Other	<u>6,185</u>	<u>(5,136)</u>	<u>16,558</u>	<u>2,173</u>	<u>17,804</u>
<b>Total Revenues and Resources</b>	334,291	316,287	327,748	313,416	334,765
<b>Expenditures</b>					
Governmental Support & Operations (2)	37,646	36,626	35,452	3,227	3,639
Economic Development & Workforce Training	-	-	-	-	-
Justice & Protection	35,476	36,401	30,720	29,262	28,634
Natural Resources Development & Protection	28	38	38	33	33
Transportation Safety & Development (1)(2)	<u>276,294</u>	<u>230,279</u>	<u>234,579</u>	<u>295,073</u>	<u>304,735</u>
Total Expenditures	<u>349,444</u>	<u>303,344</u>	<u>300,789</u>	<u>327,595</u>	<u>337,041</u>
Excess Resources Over (Under) Expenditures	(15,153)	12,943	26,959	(14,179)	(2,276)
<b>Fund Equity July 1 of preceding calendar year</b>	<u>130,067</u>	<u>114,914</u>	<u>127,857</u>	<u>77,556</u>	<u>63,377</u>
<b>Fund Equity June 30</b>	<u>\$ 114,914</u>	<u>\$ 127,857</u>	<u>\$ 154,816</u>	<u>\$ 63,377</u>	<u>\$ 61,101</u>

(1) Includes payment of debt service on bonds of the State previously issued for highway purposes.

(2) Beginning in fiscal year 2011, the State reported expenditures for the Bureau of Motor Vehicles (\$30.7 million) within the Transportation Safety & Development function. Previously, these expenditures were classified as Governmental Support and Operations.

(3) Fund Equity as restated.

**OTHER SPECIAL REVENUES FUND**  
**STATEMENT OF RESOURCES, EXPENDITURES AND CHANGES IN FUND EQUITY**  
**For the Years Ended June 30**  
**(thousands \$000's)**

	2008	2009	2010	2011	2012
<b>Revenues</b>					
Taxes					
Sales, Use and Service Provider Tax	\$ 122,450	\$ 109,123	\$ 119,417	\$ 118,713	\$ 124,967
Individual Income Tax	78,422	60,407	70,149	75,595	79,493
Corporate Income Tax	9,410	5,978	8,459	10,120	11,491
Gasoline, Use Fuel and Motor Carrier Tax	4,365	4,311	22,234	22,150	22,395
Insurance Tax	29,740	12,582	29,670	16,099	29,305
Public Utilities Tax	32,705	26,763	28,816	31,886	28,548
Other Industry or Occupation Taxes	131,986	151,015	167,343	164,704	166,162
Real Estate Transfer Tax	7,220	523	7,004	5,805	9,709
Unorganized Territories Property Tax	6,941	8,494	13,844	13,319	15,582
Other Taxes	<u>9,446</u>	<u>9,423</u>	<u>3,936</u>	<u>3,999</u>	<u>4,535</u>
Total Taxes	432,687	388,622	470,872	462,390	492,187
From Federal Government	2,199,675	2,849,238	3,129,745	3,054,575	2,703,136
From Cities, Towns and Counties	13,509	22,024	13,146	13,657	8,127
From Private Sources	181,815	190,148	175,728	198,586	221,482
Service Charges for Current Services	126,320	133,515	143,151	103,828	92,278
Fines, Forfeitures & Penalties	9,385	9,816	10,457	9,818	11,312
Vehicle Registration and Drivers Licenses			1,654	16,598	17,007
Hunting, Fishing and Related Licenses	2,234	2,208	1,847	2,070	2,360
Transfers from Other Funds	12,676	23,526	2,647	(21,142)	(23,595)
Income from Investments	2,514	1,860	625	481	343
Other Revenues	<u>4,355</u>	<u>6,209</u>	<u>(2,535)</u>	<u>(11,216)</u>	<u>22,334</u>
	2,552,483	3,238,543	3,476,464	3,367,256	3,054,784
<b>Other Financial Resources</b>					
Proceeds of General Obligation Bonds	-	-	-	-	-
Other	<u>(8,172)</u>	<u>75,540</u>	<u>10,355</u>	<u>152,098</u>	<u>(33,515)</u>
<b>Total Revenues and Resources</b>	2,976,998	3,702,705	3,957,691	3,981,745	3,513,456
<b>Expenditures</b>					
Governmental Support & Operations	167,300	158,310	134,660	144,061	145,563
Arts, Heritage & Cultural Enrichment	3,751	4,052	3,606	3,546	4,466
Business Licensing & Regulation	65,601	64,887	76,099	65,781	63,967
Economic Development & Workforce Training	105,163	176,465	384,632	347,309	288,545
Education	184,633	230,633	298,371	321,605	233,603
Health & Human Services	2,068,054	2,530,487	2,637,580	2,502,719	2,315,489
Justice & Protection	98,281	102,158	94,459	94,928	83,002
Natural Resources Development & Protection	121,020	140,540	144,562	134,371	131,028
Transportation Safety & Development	<u>173,491</u>	<u>259,005</u>	<u>299,105</u>	<u>302,170</u>	<u>300,593</u>
Total Expenditures	<u>2,987,294</u>	<u>3,666,537</u>	<u>4,073,074</u>	<u>3,916,490</u>	<u>3,566,256</u>
Excess Resources Over (Under) Expenditures	(10,295)	36,168	(115,383)	65,255	(52,800)
<b>Fund Equity July 1 of preceding calendar year</b>	<u>235,095</u>	<u>224,800</u>	<u>260,968</u>	<u>145,585</u>	<u>210,840</u>
<b>Fund Equity June 30</b>	<u>\$ 224,800</u>	<u>\$ 260,968</u>	<u>\$ 145,585</u>	<u>\$ 210,840</u>	<u>\$ 158,040</u>

# GOVERNMENTAL FUNDS COMBINED BALANCE SHEETS

JUNE 30, 2012  
(thousands \$000's)

	Total (Memorandum) (only)	General Fund	Highway Fund	Other Special Revenues	Capital Projects	Debt Service
<b>ASSETS</b>						
Equity in Treasurer's Cash Pool	\$ 219,980	\$ 3,709	\$ 39,498	\$ 142,290	\$ 29,037	\$ 5,446
Cash - Other	280	120	116	44	-	-
Accounts, Notes and Grants Receivable						
Net of Reserves for Uncollectible Accounts	257,859	227,138	21,311	9,410	-	-
Due from Other Funds	21,988	6,214	2	15,772	-	-
Working Capital Advances to Other Funds	111	111	-	-	-	-
Prepaid Expenses and Other Assets	<u>437</u>	<u>253</u>	<u>-</u>	<u>171</u>	<u>13</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u><u>500,655</u></u>	<u><u>237,545</u></u>	<u><u>60,927</u></u>	<u><u>167,687</u></u>	<u><u>29,050</u></u>	<u><u>5,446</u></u>
<b>LIABILITIES AND EQUITY</b>						
<b>LIABILITIES:</b>						
Accounts Payable	(1,198)	(1,590)	(174)	566	-	-
Other Liabilities	<u>28,600</u>	<u>19,519</u>	<u>-</u>	<u>9,081</u>	<u>-</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>27,402</u>	<u>17,929</u>	<u>(174)</u>	<u>9,647</u>	<u>-</u>	<u>-</u>
<b>EQUITY:</b>						
Reserved for Encumbrances	154,245	23,786	1,671	122,704	6,084	-
Reserved for Authorized Expenditures	259,568	63,509	51,835	114,987	29,237	-
Reserved for Utility Loans	27	-	27	-	-	-
Working Capital Advances to Other Funds	111	111	-	-	-	-
Designated for Other Purposes	33,439	33,439	-	-	-	-
Budget Stabilization Fund	44,809	44,809	-	-	-	-
Unappropriated Surplus	<u>(18,946)</u>	<u>53,962</u>	<u>7,568</u>	<u>( 79,651)</u>	<u>(6,271)</u>	<u>5,446</u>
<b>TOTAL EQUITY</b>	<u>473,253</u>	<u>219,616</u>	<u>61,101</u>	<u>158,040</u>	<u>29,050</u>	<u>5,446</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u><u>\$ 500,655</u></u>	<u><u>\$ 237,545</u></u>	<u><u>\$ 60,927</u></u>	<u><u>\$ 167,687</u></u>	<u><u>\$ 29,050</u></u>	<u><u>\$ 5,446</u></u>

**GENERAL FUND UNAPPROPRIATED SURPLUS**  
**For the Years Ended June 30**

	General Fund Unappropriated Surplus (Million)	General Fund Revenues (Million)	Surplus as Percentage of Revenues
2012	\$ 54.00	\$ 3,120.60	1.73%
2011	19.20	2,919.40	0.66%
2010	(13.00)	2,855.70	-0.46%
2009	12.90	2,819.00	0.46%
2008	26.50	3,109.40	0.85%
2007	17.60	3,022.60	0.58%
2006	14.50	2,931.80	0.50%
2005	33.70	2,790.80	1.21%
2004	14.90	2,683.50	0.55%
2003	28.90	2,394.70	1.21%
2002	-	2,331.70	0.00%
2001	38.80	2,390.60	1.62%
2000	300.90	2,500.90	12.03%
1999	229.20	2,336.10	9.81%
1998	98.30	2,111.90	4.65%
1997	21.10	1,863.10	1.13%
1996	25.80	1,766.40	1.46%
1995	4.40	1,671.70	0.26%
1994	3.80	1,623.80	0.23%
1993	4.10	1,561.40	0.26%
1992	13.30	1,512.40	0.88%

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**STATE OF MAINE**

**EXHIBIT C**

**Certain Revenues of the State (Unaudited)**

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**STATE OF MAINE**  
**UNDEDICATED REVENUES**  
**GENERAL FUND**  
**Fiscal Years Ended June 30, 2009 and June 30, 2010**

	2009			2010		
	Actual	Budget	Actual More/(Less)	Percent More/(Less)	Actual More/(Less)	Percent More/(Less)
Sales and Use Tax	\$ 921,823,720	\$ 929,698,051	\$ (7,874,331)	(0.8%)	\$ 897,938,873	\$ 883,839,994 1.6%
Service Provider Tax	52,812,595	53,452,742	(640,147)	(1.2%)	56,086,391	55,590,852 0.9%
Individual Income Tax	1,242,505,909	1,281,982,990	(39,477,081)	(3.1%)	1,298,036,055	1,299,630,000 (0.1%)
Corporate Income Tax	143,085,966	148,940,000	(5,854,034)	(3.9%)	175,292,433	147,718,716 18.7%
Cigarette and Tobacco Tax	144,424,712	143,213,844	1,210,868	0.8%	149,066,678	140,139,902 6.4%
Public Utilities Tax (1)	19,536,483	18,405,029	1,131,454	6.1%	-	- -
Insurance Companies Tax	79,770,431	71,978,985	7,791,446	10.8%	80,019,145	71,985,000 11.2%
Inheritance & Estate Tax	31,819,188	34,335,010	(2,515,822)	(7.3%)	31,209,840	29,593,253 5.5%
Property Tax - Unorganized Territory	12,633,755	12,969,540	(335,785)	(2.6%)	-	- -
Fines, Forfeits and Penalties (2)	-	-	-	-	32,787,060	32,853,721 (0.2%)
Income from Investments	1,100,029	1,154,221	(54,192)	(4.7%)	265,091	103,246 156.8%
Transfer for Tax Relief Programs	-	-	-	-	(113,604,905)	(112,559,862) (0.9%)
Transfer to Municipal Revenue Sharing	(102,160,745)	(103,412,337)	1,251,592	1.2%	(97,425,079)	(95,899,642) (1.6%)
Transfer from Lottery Commission	49,839,434	49,549,250	290,184	0.6%	52,201,531	49,843,299 4.7%
Other Taxes and Fees (3)	-	-	-	-	149,588,680	148,808,830 0.5%
Other Revenues	214,176,818	212,495,823	1,680,995	0.8%	44,220,707	41,358,080 6.9%
<b>Total Undedicated Revenue</b>	<b>\$ 2,811,368,295</b>	<b>\$ 2,854,763,148</b>	<b>\$ (43,394,853)</b>	<b>(1.5%)</b>	<b>\$ 2,755,682,500</b>	<b>\$ 2,693,005,389 2.3%</b>

- (1) Starting in FY 2010 this revenue source was included with "Other Taxes and Fees"  
(2) Prior to FY 2010 this revenue source was included with "Other Revenues"  
(3) Prior to FY 2010 revenue sources included in this category (unless otherwise mentioned above) were included in "Other Revenues"

**STATE OF MAINE**  
**UNDEDICATED REVENUES**  
**GENERAL FUND**  
**Fiscal Years Ended June 30, 2011 and June 30, 2012**

	2011			2012				
	Actual	Budget	Actual	Percent More/(Less)	Actual	Budget	Actual	Percent More/(Less)
			More/(Less)				More/(Less)	
Sales and Use Tax	\$ 923,686,973	\$ 916,746,307	\$ 6,940,666	0.8%	\$ 981,257,805	\$ 973,215,697	\$ 8,042,108	0.8%
Service Provider Tax	52,672,306	55,214,486	(2,542,180)	(4.6%)	48,255,501	50,366,313	(2,110,812)	(4.2%)
Individual Income Tax	1,415,283,534	1,392,702,302	22,581,232	1.6%	1,434,217,189	1,444,897,209	(10,680,020)	(0.7%)
Corporate Income Tax	208,996,598	193,182,264	15,814,334	8.2%	232,117,995	218,610,460	13,507,535	6.2%
Cigarette and Tobacco Tax	145,229,303	146,209,555	(980,252)	(0.7%)	139,729,147	142,123,350	(2,394,203)	(1.7%)
Public Utilities Tax	-	-	-	-	-	-	-	-
Insurance Companies Tax	76,930,329	76,765,000	165,329	0.2%	82,985,771	79,215,000	3,770,771	4.8%
Inheritance & Estate Tax	49,323,494	45,052,787	4,270,707	9.5%	44,865,567	38,260,185	6,605,382	17.3%
Property Tax – Unorganized Territory	-	-	-	-	-	-	-	-
Fines, Forfeits and Penalties	28,513,040	28,799,339	(286,299)	(1.0%)	25,120,959	25,754,504	(633,545)	(2.5%)
Income from Investments	277,770	245,127	32,643	13.3%	155,531	106,808	48,723	45.6%
Transfer for Tax Relief Programs	(113,934,585)	(113,986,593)	52,008	0.0%	(115,336,149)	(114,418,263)	(917,886)	(0.8%)
Transfer to Municipal Revenue Sharing	(93,156,725)	(91,930,345)	(1,226,380)	(1.3%)	(96,876,964)	(96,854,505)	(22,459)	(0.0%)
Transfer from Lottery Commission	49,547,800	49,034,250	513,550	1.0%	53,785,567	50,700,000	3,085,567	6.1%
Other Taxes and Fees	151,676,495	149,672,089	2,004,406	1.3%	131,943,407	132,077,778	(134,371)	(0.1%)
Other Revenues	49,910,424	48,357,956	1,552,468	3.2%	53,316,896	51,390,200	1,926,696	3.7%
Total Undedicated Revenue	\$ 2,944,956,756	\$ 2,896,064,524	\$ 48,892,232	1.7%	\$ 3,015,538,222	\$ 2,995,444,736	\$ 20,093,486	0.7%

**STATE OF MAINE**  
**PRELIMINARY UNDEDICATED REVENUES**  
**GENERAL FUND**

**Ten Months Ended April 30, 2013**

	Month			Year to Date			Total Budgeted
	Actual	Budget	Variance Over/ (under)	Percent Over/ (under)	Actual	Budget	Fiscal Year Ending 6/30/13
<b>Sales and Use Tax</b>	\$ 73,649,764	\$ 77,971,102	\$ (4,321,338)	5.5%	\$ 730,342,048	\$ 751,213,953	\$ 1,006,986,404
<b>Service Provider Tax</b>	4,210,717	4,118,001	92,716	2.3%	37,012,524	38,803,812	53,586,812
<b>Individual Income Tax</b>	269,366,548	210,945,000	58,421,548	27.7%	1,231,197,422	1,134,740,000	1,413,890,000
<b>Corporate Income Tax</b>	27,953,143	27,138,800	814,343	3.0%	131,932,789	144,283,173	186,021,732
<b>Cigarette and Tobacco Tax</b>	10,803,920	10,879,174	(75,254)	(0.7%)	113,113,784	113,231,479	138,180,000
<b>Insurance Companies Tax</b>	12,890,195	11,851,328	1,038,867	8.8%	41,241,032	41,736,537	80,715,000
<b>Estate Tax</b>	4,204,841	3,587,800	617,041	17.2%	40,535,061	43,490,633	64,878,175
<b>Fines, Forfeits &amp; Penalties</b>	1,918,485	1,705,706	212,779	12.5%	19,637,606	19,794,895	24,452,139
<b>Income from Investments</b>	(20,165)	(30,540)	10,375	34.0%	74,131	17,485	66,082
<b>Transfer from Lottery Commission</b>	4,302,955	4,042,304	260,651	6.4%	43,530,090	43,454,807	52,550,000
<b>Transfers for Tax Relief Programs</b>	(1,165,186)	(907,799)	(257,387)	(28.4%)	(109,206,071)	(109,752,379)	(112,086,562)
<b>Transfer to Municipal Revenue Sharing</b>	(4,630,896)	(5,998,881)	1,367,985	22.8%	(72,038,702)	(71,245,818)	(93,076,067)
<b>Other Taxes and Fees</b>	13,821,796	9,519,732	4,302,064	45.2%	115,087,426	115,858,110	151,399,353
<b>Other Revenues</b>	12,432,090	11,049,714	1,382,376	12.5%	26,544,873	24,590,877	40,219,187
<b>Total Undedicated Revenue</b>	<b>\$ 429,738,208</b>	<b>\$ 365,871,441</b>	<b>\$ 63,866,767</b>	<b>17.5%</b>	<b>\$ 2,349,004,014</b>	<b>\$2,290,217,564</b>	<b>\$ 3,007,782,255</b>

**NOTES:** (1) Included in the above is \$4,630,896 for the month and \$72,038,702 year to date that was set aside for Revenue Sharing with cities and towns.

(2) The amounts set forth above under the headings "Month – Budget," "Year to Date – Budget" and "Total Budgeted" reflect estimated adjustments in projected revenue provided by the Maine State Revenue Forecasting Committee in its December 2012 report. For additional information concerning the revisions to the State's fiscal year 2013 budget, see "Revenues of the State – General," including the table therein, in Appendix A to this Information Statement.

(3) This report has been prepared from preliminary month end figures and is subject to change.

**STATE OF MAINE  
HIGHWAY FUND  
REVENUES  
Fiscal Years Ended June 30, 2009 and June 30, 2010**

	2009			2010		
	Actual	Budget	Actual More/(Less)	Percent More/(Less)	Actual	Percent More/(Less)
Fuel Taxes	\$ 216,215,544	\$ 217,243,255	\$ (1,027,711)	(0.5%)	\$ 219,190,706	\$ (1,114,820) (0.5%)
Motor Vehicle Registration & Fees	91,886,824	92,254,651	(367,827)	(0.4%)	78,082,290	3,038,597 4.0%
Inspection Fees	4,057,978	3,996,421	61,557	1.5%	3,834,421	(62,494) (1.6%)
Miscellaneous Taxes and Fees (1)	-	-	-	-	-	-
Fines, Forfeits & Penalties	1,785,197	1,795,049	(9,852)	(0.5%)	1,440,062	(304,987) (17.5%)
Earnings on Investments	480,419	458,391	22,028	4.8%	162,488	49,158 43.4%
All Other Revenues	9,816,188	9,401,872	414,316	4.4%	8,480,405	93,152 1.1%
<b>TOTAL</b>	<b>\$ 324,242,150</b>	<b>\$ 325,149,639</b>	<b>\$ (907,489)</b>	<b>(0.3%)</b>	<b>\$ 311,190,374</b>	<b>\$ 1,698,608 0.5%</b>

Source: Revenue Highway General Accounting

(1) Prior to FY 2011 revenue sources included in this category were included in "All Other Revenues".

**STATE OF MAINE  
HIGHWAY FUND  
REVENUES  
Fiscal Years Ended June 30, 2011 and June 30, 2012**

	2011				2012			
	Actual	Budget	Actual More/(Less)	Percent More/(Less)	Actual	Budget	Actual More/(Less)	Percent More/(Less)
Fuel Taxes	\$ 217,033,892	\$ 215,546,404	\$ 1,487,488	0.7%	\$ 219,463,118	\$ 218,088,754	\$ 1,374,364	0.6%
Motor Vehicle Registration & Fees	80,841,240	78,986,392	1,854,848	2.3%	83,563,402	82,738,186	825,216	1.0%
Inspection Fees	2,977,702	3,032,500	(54,799)	(1.8%)	2,997,951	2,982,500	15,451	0.5%
Miscellaneous Taxes & Fees	1,358,069	1,325,823	32,246	2.4%	1,361,888	1,313,165	48,723	3.7%
Fines, Forfeits & Penalties	1,145,044	1,205,049	(60,005)	(5.0%)	1,044,271	993,049	51,222	5.2%
Earnings on Investments	124,518	120,434	4,084	3.4%	141,082	121,761	19,321	15.9%
All Other Revenues	7,870,691	8,072,531	(201,840)	(2.5%)	8,630,697	8,734,112	(103,415)	(1.2%)
<b>TOTAL</b>	<b>\$ 311,351,155</b>	<b>\$ 308,289,133</b>	<b>\$ 3,062,022</b>	<b>1.0%</b>	<b>\$ 317,202,409</b>	<b>\$ 314,971,527</b>	<b>\$ 2,230,882</b>	<b>0.7%</b>

Source: Revenue Highway General Accounting

**STATE OF MAINE**  
**PRELIMINARY HIGHWAY FUND**  
**REVENUES**  
**Ten Months Ended April 30, 2013**

	Month			Year to Date			Total Budgeted Fiscal Year Ending 6-30-2013
	Actual	Budget	Variance	Percent Over/ (under)	Actual	Variance	
			Over/ (under)			Over/ (under)	
Fuel Taxes	\$ 16,799,122	\$16,304,408	\$ 494,714	3.0%	\$ 159,538,545	\$ 161,617,747	\$ 216,943,386
Motor Vehicle Registration & Fees	8,783,095	8,022,410	760,685	9.5%	74,369,959	72,561,609	87,375,782
Inspection Fees	570,957	248,540	322,417	129.7%	2,846,604	2,485,400	2,982,500
Miscellaneous Taxes & Fees	111,884	127,046	(15,162)	(11.9%)	975,276	1,017,467	1,276,365
Fines, Forfeits & Penalties	79,087	93,226	(14,139)	(15.2%)	861,869	872,442	1,039,868
Earnings on Investments	12,770	10,824	1,946	18.0%	72,274	103,313	124,642
All Other	649,177	574,551	74,626	13.0%	7,734,959	8,009,932	9,123,222
Total Revenue	\$ 27,006,092	\$25,381,005	\$ 1,625,087	6.4%	\$ 246,399,486	\$ 246,667,910	\$ 318,865,765

Note: This report has been prepared from preliminary month end figures and is subject to change. The amounts set forth above under the headings "Month – Budget," "Year to Date – Budget" and "Total Budgeted" reflect estimated adjustments in projected revenue provided by the Maine State Revenue Forecasting Committee in its December 2012 report. For additional information concerning the revisions to the State's fiscal year 2013 budget, see "Revenues of the State – General," including the table therein, in Appendix A to this Information Statement.

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# STATE OF MAINE

## EXHIBIT D

### **Selected Information Regarding Authorized and Outstanding Debt of the State**

	<b>Page</b>
Authorized Expenditures .....	D-2
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# AUTHORIZED EXPENDITURES

The purposes for which authorized expenditures may be made, the expending department or agency, the authorizing acts and the balances of authorized expenditures were as of the date hereof as follows:

Agency	Law	Description	Total Authorization Dec. 29, 2012
DAG	2009 PL Chapter 414	Agricultural water source development grant program.	\$ 295,000
DECD	2009 PL, Chapter 414	Provides funds to make investments under the Communities for Maine's future program.	3,051,711
DECD	2009 PL, Chapter 414	Brunswick Naval Air Station Redevelopment	2,944,098
DEP	2009 PL, Chapter 414, C	Small Community Grant program: provides funding for grants to small towns to help replace malfunctioning septic systems that are polluting a water body or creating a public nuisance.	200,000
DEP	2009 PL, Chapter 414, C	Uncontrolled hazardous substance investigation and clean up	150,000
DEP	2009 PL, Chapter 414, C	Wastewater treatment facility construction grants	200,000
DEP	2009 PL, Chapter 414, C	Overboard discharge	100,000
DEP	2011 PL, c. 695	Revolving Loan for Wastewater treatment facilities	4,335,000
DHHS	2009 PL, c.414 as amended by PL 2009, c.645	Community-based Teaching Clinic	2,400,000
DHHS	2009 PL, c.414 as amended by PL 2009, c.645	Health and Dental Clinic Upgrades	1,500,000
DHHS	2012 PL, c. 695	Revolving Loan for Drinking Water Systems	3,590,000
DOC	2009 PL, c.414 as amended by PL 2009, c.645	State Parks and Land Management	110,000
DOT	2009 PL, Chapter 414, Part A	Ports (includes funds for port improvements in Eastport & Searsport)	900,000
DOT	2009 PL, Chapter 414, Part A	Ferry	650,000
DOT	2009 PL, Chapter 414, Part A	Aviation-FAA	1,700,000
DOT	2009 PL, Chapter 414, Part A	Island Airport Program	100,000
DOT	2009 PL, Chapter 414, Part A	Augusta Airport Upgrade	50,000
DOT	2009 PL, Chapter 645, A	Taxable Railroad	2,000,000
DOT	2009 PL, Chapter 645, A	Marine/SHIP	100,000
DOT	2011, PL c. 697	Highway and Bridge Construction	41,000,000
DOT	2011, PL c. 697	Life flight	300,000
DOT	2011, PL c. 697	Provides funds for dredging the established commercial channel at Searsport, which serves the existing port operation at Mack Point, and potential port development on Sears Island	3,000,000
DOT	2011, PL c. 697	Provides funds for material handling equipment for the port at Mack Point.	2,000,000
DOT	2011, PL c. 697	Provides funds for transit buses.	1,000,000
DOT	2011, PL c. 697	Industrial Rail Access Program	1,500,000
<b>TOTAL</b>			<b>\$ 104,577,809</b>

Agency	Law	Description	Total Authorization Dec. 29, 2012
DOT	2011, PL c. 697	Warehousing facilities at the port at Eastport	1,500,000
DOT	2011, PL c. 697	Aviation facilities	1,200,000
MCCS	2009 PL, c 414	Provides funds for energy and infrastructure upgrades at all campuses of MCCS,	1,050,000
Maine Historic Preservation	2009 PL, Chapter 414 as amended by chapter 645	Historic Preservation Commission: Provides capital investment through a revolving loan fund to revitalize downtowns and village centers by preserving and rehabilitating historic properties.	1,200,000
MTI	2009 PL, Chapter 414	Provides funds for research, development and commercialization as prioritized by the Office of Innovation's current Science and Technology Action Plan for Maine. The funds must be allocated to environmental and renewable energy technology, biomedical and biotechnology, aquaculture and marine technology, composite materials technology, advanced technologies for forestry and agriculture, information technology, and precision manufacturing technology through a competitive process and must be awarded to a Maine-based public and probate institutions and must be awarded to leverage matching funds.	3,000,000
DOC	2009 PL, c.414 as amended by PL 2009, c.645	Provides for the use of bond proceeds to be used for the acquisition of land and interest in land for conservation, water access, outdoor recreation, wildlife and fish habitat, farmland preservation.	6,500,000
DOC	2009 PL, c.414 as amended by PL 2009, c.645	Provides funds to be used for working farmland preservation	500,000
DOC	2009 PL, c.414 as amended by PL 2009, c.645	Provides funds to be used for working waterfront preservation	425,000
DOC	2012 PL, c. 696	Land for Maine's Future Board.	5,000,000
UMS	2009 PL, chapter 414	Tax-exempt Provides funds for energy and infrastructure upgrades at all campuses of UMS	3,677,000
UMS	2009 PL, chapter 414 as amended by c. 645	Maine Marine Wind Energy Fund. Provides funds for research, development and product innovation associated with developing one or more ocean wind energy demonstration sites.	7,350,000
<b>TOTAL</b>			<b>\$ 104,577,809</b>

**GENERAL FUND BONDS**  
**DEBT SERVICE REQUIREMENTS TO MATURITY**  
**June 30, 2012**

<b><u>FISCAL YEAR</u></b>	<b><u>PRINCIPAL</u></b>	<b><u>INTEREST</u></b>	<b><u>TOTAL</u></b>
2013	\$85,595,000	\$12,924,559	\$98,519,559
2014	67,445,000	10,159,578	77,604,578
2015	54,375,000	7,971,839	62,346,839
2016	39,040,000	6,146,326	45,186,326
2017	28,090,000	4,500,967	32,590,967
2018	24,710,000	3,187,587	27,897,587
2019	20,090,000	2,079,769	22,169,769
2020	11,650,000	1,204,332	12,854,332
2021	11,360,000	804,750	12,164,750
2022	4,735,000	236,750	4,971,750
	<b>\$347,090,000</b>	<b>\$49,216,457</b>	<b>\$396,306,457</b>

**HIGHWAY FUND BONDS**  
**DEBT SERVICE REQUIREMENTS TO MATURITY**  
**June 30, 2012**

<b><u>FISCAL YEAR</u></b>	<b><u>PRINCIPAL</u></b>	<b><u>INTEREST</u></b>	<b><u>TOTAL</u></b>
2013	\$16,735,000	\$5,151,841	\$21,886,841
2014	16,035,000	4,544,279	20,579,279
2015	15,275,000	3,914,654	19,189,654
2016	15,300,000	3,265,079	18,565,079
2017	21,015,000	2,600,579	23,615,579
2018	18,285,000	1,691,210	19,976,210
2019	12,500,000	905,540	13,405,540
2020	7,610,000	389,668	7,999,668
2021	2,210,000	110,500	2,320,500
	<b>\$124,965,000</b>	<b>\$22,573,349</b>	<b>\$147,538,349</b>

<b>GF + HF</b>	<b>\$472,055,000</b>	<b>\$71,789,805</b>	<b>\$543,844,805</b>
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## INFORMATION REGARDING LEASE FINANCING AGREEMENTS

<u>Agency</u>	<u>Date of Agreement</u>	<u>Original Principal Amount</u>	<u>Principal Amount Outstanding 3/31/2013</u>	<u>Principal &amp; Interest Due 4/1/2013 - 6/30/2013</u>
Administrative & Financial Services	February, 2007	14,000,000	1,204,401	-
Administrative & Financial Services	June, 2008	1,700,416	182,082	185,055
Administrative & Financial Services	April, 2009	4,200,000	551,909	559,935
Department of Education	August, 2009	38,045,561	2,279,599	2,279,599
Department of Education	September, 2009	349,086	2,272	2,272
Department of Education	September, 2009	98,768	6,173	6,173
Department of Education	December, 2009	689,000	49,214	49,214
Administrative & Financial Services	January, 2010	10,000,000	2,969,659	-
Department of Transportation	January, 2010	2,770,000	754,452	-
Administrative & Financial Services	May, 2010	4,700,000	2,374,080	1,205,411
Department of Education	June, 2010	588,602	42,768	42,768
Administrative & Financial Services	July, 2010	10,000,000	5,857,660	-
Administrative & Financial Services	October, 2010	5,000,000	3,274,283	387,655
Department of Education	January, 2011	569,250	56,925	56,925
Administrative & Financial Services	May, 2011	4,200,000	2,117,462	-
Administrative & Financial Services	May, 2011	5,000,000	3,562,319	-
Public Safety	May, 2011	1,800,000	605,886	-
Department of Education	July, 2011	470,919	58,865	58,865
Administrative & Financial Services	May, 2012	4,600,000	4,600,000	1,165,711
Public Safety	May, 2012	2,100,000	1,394,722	281,752
Administrative & Financial Services	January, 2013	15,000,000	13,882,828	1,117,172
Public Safety	March, 2013	2,100,000	2,100,000	360,000
Administrative & Financial Services	March, 2013	5,400,000	5,400,000	-
Administrative & Financial Services	March, 2013	4,250,000	4,250,000	-
TOTALS:		<u>\$ 137,631,602</u>	<u>\$ 57,577,559</u>	<u>\$ 7,758,507</u>

## Debt Ratios

The following table sets forth certain ratios relating to the State's general obligation debt and certain lease financing agreements as of June 30, 2012.

	<u>Amount of Debt</u>	<u>Per Capita</u> <sup>(1)</sup>	<u>Debt to Estimated Full Valuation</u> <sup>(2)</sup>	<u>Debt to Personal Income</u> <sup>(3)</sup>
General Fund	\$472,055,000	\$355.41	0.30%	0.90%
Highways & Bridges	71,789,805	54.05	0.04%	0.14%
<b>Total</b>	<b>\$543,844,805</b>	<b>\$409.46</b>	<b>0.34%</b>	<b>1.04%</b>

- (1) Based on population estimate of 1,328,188 for 2011 by the U.S. Department of Commerce, Bureau of the Census.
- (2) Based on assessed property valuation at full value by the Maine Revenue Services as of January 2012 of \$160,011,900,000.
- (3) Based on State of Maine total personal income reported by the U.S. Department of Commerce for 2012 of \$52,477,565,000.

## Debt Ratio Statistics

**June 30, 2012**

### Debt to Full Value

2010	0.58%
2011	0.32%
2012	0.34%

### Debt to Personal Income

2010	1.42%
2011	1.03%
2012	1.04%

### Per Capita Debt

2010	\$374.20
2011	\$391.68
2012	\$409.46

### DEBT SERVICE PAID OVER PAST TEN FISCAL YEARS ENDING JUNE 30

<b>Fiscal Year</b>	<b>General Fund Principal</b>	<b>General Fund Interest</b>	<b>Highway Fund Principal</b>	<b>Highway Fund Interest</b>	<b>Total Principal</b>	<b>Total Interest</b>
2002	\$64,225,000	\$15,444,189	\$23,300,000	\$5,299,529	\$87,525,000	\$20,743,718
2003	63,880,000	12,941,300	21,215,000	4,003,828	85,095,000	16,945,128
2004	56,240,000	12,567,264	16,015,000	3,022,015	72,255,000	15,589,279
2005	53,440,000	12,525,813	13,280,000	2,477,535	66,720,000	15,003,348
2006	57,915,000	15,253,937	13,950,000	2,007,306	71,865,000	17,261,243
2007	69,280,000	17,364,513	10,415,000	1,387,084	79,695,000	18,751,597
2008	66,230,000	16,057,428	10,750,000	2,050,995	76,980,000	18,108,423
2009	65,685,000	15,179,120	13,505,000	3,848,227	79,190,000	19,027,347
2010	74,905,000	15,451,420	11,820,000	4,803,042	86,725,000	20,254,462
2011	81,055,000	14,015,648	16,385,000	5,698,368	97,440,000	19,714,016
2012	85,595,000	12,924,559	16,735,000	5,151,841	102,330,000	18,076,400

### BONDS OUTSTANDING AT JUNE 30 of Certain Fiscal Years Compared to Total Governmental Funds Revenue

<b>Year Ended</b>	<b>General Fund</b>	<b>Highway Fund</b>	<b>Self-Liquidating</b>	<b>Total</b>	<b>Total Governmental Funds Revenue</b>	<b>Percent of State Revenues</b>
1991	\$277,710,000	\$102,870,000	\$14,840,000	\$395,420,000	\$2,533,777,000	15.6%
1992	308,890,000	107,395,000	13,395,000	429,680,000	2,995,325,000	14.0
1993	405,823,000	136,320,000	2,562,000	544,705,000	3,178,491,000	17.2
1994	383,618,000	143,355,000	2,312,000	529,285,000	3,311,809,213	16.0
1995	377,055,000	136,950,000	2,055,000	516,060,000	3,381,332,000	15.3
1996	369,457,945	144,440,000	1,792,055	515,690,000	3,598,717,000	14.3
1997	339,620,600	129,060,000	1,529,400	470,210,000	3,756,557,734	12.5
1998	337,575,000	139,180,000	1,290,000	478,045,000	4,168,141,000	11.5
1999	334,725,000	133,700,000	1,115,000	469,540,000	4,257,340,458	11.0
2000	341,205,000	111,230,000	940,000	453,375,000	4,604,954,195	9.8
2001	297,405,000	108,635,000	765,000	406,805,000	4,608,742,000	8.8
2002	260,790,000	85,335,000	600,000	346,725,000	4,808,788,859	7.2
2003	293,990,000	64,120,000	445,000	358,555,000	5,114,542,674	7.0
2004	355,025,000	61,105,000	290,000	416,420,000	5,902,866,220	7.1
2005	439,110,000	47,825,000	160,000	487,095,000	6,114,225,943	8.0
2006	433,585,000	33,875,000	90,000	467,550,000	6,336,819,316	7.4
2007	398,280,000	50,460,000	20,000	448,760,000	6,906,395,835	6.5
2008	378,575,000	97,260,000	0	475,835,000	6,406,301,524	7.4
2009	408,925,000	121,065,000	0	529,990,000	6,827,986,832	7.7
2010	365,775,000	134,325,000	0	500,100,000	7,157,520,886	7.0
2011	378,880,000	141,350,000	0	520,230,000	7,383,247,000	7.0
2012	347,090,000	124,965,000	0	472,055,000	7,239,851,000	6.5

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## **EXHIBIT E**

The information contained in this Exhibit E is derived from information contained in the actuarial valuation reports for the year ended June 30, 2012 for the State Employee and Teacher Retirement Program, the Legislative Retirement Program, the Judicial Retirement Program, and the Group Life Insurance Program. These actuarial valuation reports are available at [www.mainepepers.org/bonds.htm](http://www.mainepepers.org/bonds.htm).

### **Maine Public Employees Retirement System State Employees and Public School Teachers Actuarial Balance Sheet, June 30, 2012**

<b>ASSETS</b> <b>(Present Value of expected income)</b>	<b>State</b> <b>Employees</b>	<b>MTRA</b> <b>Teachers</b>	<b>All</b> <b>Employees</b>
<b>(1) Invested Assets</b>			
(a) Members Contribution Fund	\$ 802,292,748	\$1,468,871,846	\$2,271,164,594
(b) Retirement Allowance Fund	<u>2,212,959,196</u>	<u>4,396,606,330</u>	<u>6,609,565,526</u>
(c) Total Invested Assets (a + b)*	\$3,015,251,944	\$5,865,478,176	\$8,880,730,120
<b>(2) Future Contributions</b>			
(a) Member Contributions	\$ 326,688,088	\$ 564,040,789	\$ 890,728,877
(b) Actuarial Costs	<u>1,160,735,684</u>	<u>1,867,273,649</u>	<u>3,028,009,333</u>
(c) Total Contribution Income (a + b)	\$1,487,423,772	\$2,431,314,438	\$3,918,738,210
<b>(3) Present Value of Total Income (1 + 2)</b>	\$4,502,675,716	\$8,296,792,614	\$12,799,468,330
<b>LIABILITIES</b> <b>(Present Value of expected benefit payments)</b>			
<b>(1) Active Employees</b>			
(a) Current Accrued Benefits	\$1,154,236,301	\$2,727,928,783	\$3,882,165,084
(b) Future Benefit Accruals	<u>797,228,552</u>	<u>1,463,214,503</u>	<u>2,260,443,055</u>
(c) Total Active Benefits (a + b)	\$1,951,464,853	\$4,191,143,286	\$6,142,608,139
<b>(2) Inactive Employees</b>			
(a) Total Inactive Benefits	\$2,551,210,863	\$4,105,649,328	\$6,656,860,191
<b>(3) Present Value of Total Benefits (1 + 2)</b>	\$ 4,502,675,716	\$8,296,792,614	\$12,799,468,330

\*Actuarial Value

**Maine Public Employees Retirement System**  
**Judicial Plan**  
**Actuarial Balance Sheet, June 30, 2012**

**Assets**

(Present Value of expected income)

(1) Invested Assets

(a) Members Contribution Fund	\$ 9,379,428
(b) Retirement Allowance Fund	<u>40,355,576</u>
(c) Total Invested Assets (a+b)*	\$ 49,735,004

(2) Future Contributions

(a) Member Contributions	\$ 2,286,464
(b) Actuarial Costs	<u>1,683,823</u>
(c) Total Contribution Income (a+b)	\$ 3,970,287

(3) Present Value of Total Income (1+2) \$ 53,705,291

**Liabilities**

(Present Value of Expected Benefit Payments)

(1) Active Employees

(a) Current Accrued Benefits	\$ 20,082,565
(b) Future Benefit Accruals	<u>8,890,916</u>
(c) Total Active Benefits (a+b)	\$ 28,973,481

(2) Inactive Employees

(a) Total Inactive Benefits \$ 24,731,810

(3) Present Value of Total Benefits (1+2) \$ 53,705,291

\*Actuarial Value

**Maine Public Employees Retirement System**  
**Legislative Plan**  
**Actuarial Balance Sheet, June 30, 2012**

**Assets**

(Present Value of expected income)

(1) Invested Assets

(a) Members Contribution Fund	\$ 2,321,819
(b) Retirement Allowance Fund	<u>7,000,600</u>
(c) Total Invested Assets (a+b)*	\$ 9,322,419

(2) Future Contributions

(a) Member Contributions	\$ 903,563
(b) Actuarial Costs	<u>(2,150,074)</u>
(c) Total Contribution Income (a+b)	\$ (1,246,511)

(3) Present Value of Total Income (1+2)	\$ 8,075,908
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**Liabilities**

(Present Value of Expected Benefit Payments)

(1) Active Employees

(a) Current Accrued Benefits	\$ 2,285,461
(b) Future Benefit Accruals	<u>1,894,471</u>
(c) Total Active Benefits (a+b)	\$ 4,179,932

(2) Inactive Employees

(a) Total Inactive Benefits	\$ 3,895,976
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(3) Present Value of Total Benefits (1+2)	\$ 8,075,908
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\*Actuarial Value

**Maine Public Employees Retirement System**  
**State Employees and Public School Teachers**  
**Actuarial Balance Sheet for Group Life Insurance, June 30, 2012**

<b>ASSETS</b> <b>(Present Value of expected income)</b>	<b>State</b> <b>Employees</b>	<b>MTRA</b> <b>Teachers</b>	<b>All</b> <b>Employees</b>
<b>(1) Invested Assets</b>			
(a) Members Contribution Fund	\$ 0	\$ 0	\$ 0
(b) Retirement Allowance Fund	<u>24,228,164</u>	<u>30,106,492</u>	<u>54,334,656</u>
(c) Total Invested Assets (a + b)*	\$ 24,228,164	\$ 30,106,492	\$ 54,334,656
<b>(2) Future Contributions</b>			
(a) Member Contributions	\$ 0	\$ 0	\$ 0
(b) Actuarial Costs	<u>61,149,735</u>	<u>44,327,358</u>	<u>105,477,093</u>
(c) Total Contribution Income (a + b)	\$ 61,149,735	\$ 44,327,358	\$ 105,477,093
<b>(3) Present Value of Total Income (1 + 2)</b>	\$ 85,377,899	\$ 74,433,850	\$ 159,811,749
<b>LIABILITIES</b> <b>(Present Value of expected benefit payments)</b>			
<b>(1) Active Employees</b>			
(a) Current Accrued Benefits	\$ 19,552,687	\$ 20,832,768	\$ 40,385,455
(b) Future Benefit Accruals	<u>13,487,491</u>	<u>12,054,801</u>	<u>25,542,292</u>
(c) Total Active Benefits (a + b)	\$ 33,040,178	\$ 32,887,569	\$ 65,927,747
<b>(2) Inactive Employees</b>			
(a) Total Inactive Benefits	\$ 52,337,721	\$ 41,546,281	\$ 93,884,002
<b>(3) Present Value of Total Benefits (1 + 2)</b>	\$ 85,377,899	\$ 74,433,850	\$ 159,811,749

\*Actuarial Value

**Maine Public Employees Retirement System**

**Judicial Plan**

**Actuarial Balance Sheet for Group Life Insurance, June 30, 2012**

**Assets**

(Present Value of expected income)

(1) Invested Assets

(a) Members Contribution Fund	\$ 0
(b) Retirement Allowance Fund	<u>428,362</u>
(c) Total Invested Assets (a+b)*	\$ 428,362

(2) Future Contributions

(a) Member Contributions	\$ 0
(b) Actuarial Costs	<u>1,087,411</u>
(c) Total Contribution Income (a+b)	\$ 1,087,411

(3) Present Value of Total Income (1+2) \$ 1,515,773

**Liabilities**

(Present Value of Expected Benefit Payments)

(1) Active Employees

(a) Current Accrued Benefits	\$ 538,798
(b) Future Benefit Accruals	<u>177,424</u>
(c) Total Active Benefits (a+b)	\$ 716,222

(2) Inactive Employees

(a) Total Inactive Benefits \$ 799,551

(3) Present Value of Total Benefits (1+2) \$ 1,515,773

\*Actuarial Value

**Maine Public Employees Retirement System**

**Legislative Plan**

**Actuarial Balance Sheet for Group Life Insurance, June 30, 2012**

**Assets**

(Present Value of expected income)

(1) Invested Assets

(a) Members Contribution Fund	\$ 0
(b) Retirement Allowance Fund	<u>8,126</u>
(c) Total Invested Assets (a+b)*	\$ 8,126

(2) Future Contributions

(a) Member Contributions	\$ 0
(b) Actuarial Costs	<u>18,518</u>
(c) Total Contribution Income (a+b)	\$ 18,518

(3) Present Value of Total Income (1+2)	\$ 26,644
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**Liabilities**

(Present Value of Expected Benefit Payments)

(1) Active Employees

(a) Current Accrued Benefits	\$ 0
(b) Future Benefit Accruals	<u>0</u>
(c) Total Active Benefits (a+b)	\$ 0

(2) Inactive Employees

(a) Total Inactive Benefits	\$ 26,644
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(3) Present Value of Total Benefits (1+2)	\$ 26,644
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\*Actuarial Value

## STATE OF MAINE

### EXHIBIT F

#### Selected Economic Information With Respect to the State

##### Maine Population

Year	Population	Rank U.S.	Percent Change	Per Square Mile
1920	768,000	35	-	24.9
1930	797,000	-	3.80%	25.8
1940	847,000	35	6.30	27.4
1950	914,000	35	7.90	29.6
1960	969,000	36	6.00	31.4
1970	992,000	38	2.40	32.1
1980	1,126,000	38	13.50	36.5
1990	1,227,928	38	9.10	39.8
2000	1,274,923	40	3.80	41.3
2001	1,284,470	40	0.70	41.6
2002	1,294,464	40	0.80	41.9
2003	1,305,728	40	0.90	42.3
2004	1,317,253	40	0.90	37.2
2005	1,321,505	40	0.30	41.3
2006	1,321,574	40	0.01	43.0
2007	1,317,207	40	-.30	42.7
2008	1,316,456	40	-.06	43.0
2009	1,318,301	40	.14	37.0
2010	1,328,361	41	.76	43.1
2011	1,328,188	42	-.01	43.1
2012	1,329,192	41	.01	43.1

Source: U.S. Census Bureau.

<b>Personal Income and Earnings by Industry in Maine 2008-2012</b>					
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Personal income (thousands of dollars)</b>	48,469,425	47,989,505	48,798,729	50,435,496	50,435,496
<b>Earnings by place of work</b>	33,333,748	32,697,032	33,422,429	34,175,593	34,803,611
<b>Farm earnings</b>	179,061	154,037	198,733	189,680	208,976
<b>Nonfarm earnings</b>	33,154,687	32,542,995	33,223,696	33,985,913	34,594,635
<b>Forestry, fishing, related activities, and other</b>	confidential	confidential	422,803	439,068	480,035
<b>Mining</b>	confidential	confidential	13,615	15,364	14,689
<b>Utilities</b>	218,131	190,876	205,516	195,862	217,774
<b>Construction</b>	2,208,731	1,985,238	2,079,675	2,158,792	2,266,039
<b>Manufacturing</b>	3,749,339	3,542,842	3,474,625	3,555,015	3,568,855
<b>Wholesale trade</b>	1,384,651	1,315,872	1,311,001	1,363,058	1,417,864
<b>Retail trade</b>	2,776,263	2,752,269	2,783,411	2,843,868	2,930,448
<b>Transportation and warehousing</b>	901,953	880,746	885,118	889,061	893,022
<b>Information</b>	585,021	552,704	566,993	509,276	500,193
<b>Finance and insurance</b>	1,852,693	1,825,213	1,919,083	2,042,081	1,969,745
<b>Real estate and rental and leasing</b>	418,789	444,785	483,722	486,888	466,188
<b>Professional and technical services</b>	2,247,550	2,089,450	2,128,848	2,210,109	2,311,608
<b>Management of companies and enterprises</b>	618,238	553,887	562,928	595,893	661,244
<b>Administrative and waste services</b>	1,110,424	1,098,852	1,137,169	1,219,544	1,231,703
<b>Educational services</b>	545,972	575,988	586,562	626,897	660,656
<b>Arts</b>	358,573	351,544	330,644	337,285	359,892
<b>Accommodation and food services</b>	1,140,026	1,116,928	1,190,180	1,233,808	1,286,545
<b>Other services, except public administration</b>	1,102,455	1,108,958	1,161,777	1,206,942	1,218,349
<b>Government and government enterprises</b>	6,324,258	6,452,202	6,522,639	6,474,052	6,485,294
Source: U.S. Bureau of Economic Analysis					

**Per Capita Personal Income  
Maine, New England, U.S.  
2001-2012**

	Per Capita Income*			Maine as a Percent of			Annual Percent Increase			
	US	NE	Maine		US	NE		US	NE	Maine
<b>2001</b>	31,157	37,996	28,181		90.4%	74.2%		2.8%	3.8%	5.6%
<b>2002</b>	31,481	38,131	28,846		91.6%	75.6%		1.0%	0.4%	2.4%
<b>2003</b>	32,295	38,798	29,851		92.4%	76.9%		2.6%	1.7%	3.5%
<b>2004</b>	33,909	40,837	31,335		92.4%	76.7%		5.0%	5.3%	5.0%
<b>2005</b>	35,452	42,376	31,834		89.8%	75.1%		4.6%	3.8%	1.6%
<b>2006</b>	37,725	45,627	33,474		88.7%	73.4%		6.4%	7.7%	5.2%
<b>2007</b>	39,506	48,223	34,930		88.4%	72.4%		4.7%	5.7%	4.3%
<b>2008</b>	40,947	49,726	36,429		89.0%	73.3%		3.6%	3.1%	4.3%
<b>2009</b>	38,637	47,344	36,093		93.4%	76.2%		-5.6%	-4.8%	-0.9%
<b>2010</b>	39,791	49,056	36,629		92.1%	74.7%		3.0%	3.6%	1.5%
<b>2011</b>	41,560	51,274	38,299		92.2%	74.7%		4.4%	4.5%	4.6%
<b>2012</b>	42,693	52,466	39,481		92.5%	75.3%		2.7%	2.3%	3.1%
Source: U.S. Bureau of Economic Analysis										

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**State Valuation of Taxable Real and Personal Property**

January 1991	\$ 64,905,350,000
January 1992	68,471,100,000
January 1993	67,751,400,000
January 1994	66,565,550,000
January 1995	66,425,500,000
January 1996	67,102,925,900
January 1997	68,286,600,000
January 1998	69,691,900,000
January 1999	71,779,350,000
January 2000	74,260,000,000
January 2001	78,389,400,000
January 2002	84,874,550,000
January 2003	94,034,050,000
January 2004	104,219,950,000
January 2005	118,038,020,000
January 2006	133,628,600,000
January 2007	148,946,200,000
January 2008	162,744,550,000
January 2009	168,006,150,000
January 2010	170,336,350,000
January 2011	166,990,700,000
January 2012	163,424,200,000
January 2013	160,011,900,000

Source: State Revenue Services.

The State valuation of taxable property is equal to 100% of value.

The State valuation filed in January of each year is based on the value of property as of April 1, 21 months prior to the filing date.

## Selected Labor Market Information for Maine

### Annual Averages, 2008 through 2012, Not Seasonally Adjusted

	2008	2009	2010	2011	2012
<b>Nonfarm Wage and Salary Employment</b>	617,200	596,300	593,000	594,700	597,600
<b>Manufacturing Employment</b>	58,800	52,300	50,800	50,700	50,800
<b>Nonmanufacturing Employment</b>	558,400	544,000	542,200	544,000	546,800
<b>Average Weekly Hours of Manufacturing Production</b>	41.4	40.0	41.1	40.8	41.3
<b>Average Hourly Earnings of Manufacturing Production</b>	\$19.71	\$19.97	\$20.18	\$20.21	\$20.50
<b>Unemployment Rate</b>	5.4%	8.1%	8.2%	7.7%	7.3%
<b>Number Unemployed</b>	38,200	57,000	57,300	54,400	51,600

Source: Maine Department of Labor, Center for Workforce Research and Information.

**Civilian Labor Force**  
**Employed and Unemployed by Labor Market Area, Not Seasonally Adjusted**  
**March 1, 2013**

<b>Maine Labor Force Estimates for Labor Market Areas</b>												
	Civilian Labor Force			Employment			Unemployment			Unemployment Rate		
LABOR MARKET AREA	Mar-13	Feb-13	Mar-12	Mar-13	Feb-13	Mar-12	Mar-13	Feb-13	Mar-12	Mar-13	Feb-13	Mar-12
Augusta Micro	46,135	45,962	46,244	43,022	42,630	42,766	3,113	3,332	3,478	6.7%	7.2%	7.5%
Bangor MA	72,780	73,221	73,049	67,618	67,620	67,491	5,162	5,601	5,558	7.1	7.6	7.6
Belfast LMA	13,346	13,350	13,363	12,113	11,997	12,023	1,233	1,353	1,340	9.2	10.1	10.0
Boothbay Harbor LMA	3,650	3,672	3,574	3,273	3,249	3,170	377	423	404	10.3	11.5	11.3
Bridgton-Paris LMA	14,087	14,116	13,962	12,838	12,794	12,566	1,249	1,322	1,396	8.9	9.4	10.0
Brunswick Micro	33,831	33,845	34,190	31,546	31,307	31,740	2,285	2,538	2,450	6.8	7.5	7.2
Calais LMA	5,539	5,557	5,736	4,846	4,797	5,030	693	760	706	12.5	13.7	12.3
Camden LMA	7,162	7,087	7,338	6,578	6,453	6,676	584	634	662	8.2	8.9	9.0
Conway LMA	3,890	3,950	3,880	3,648	3,676	3,626	242	274	254	6.2	6.9	6.5
Dover-Foxcroft LMA	9,278	9,319	9,254	8,323	8,289	8,210	955	1,030	1,044	10.3	11.1	11.3
Ellsworth Micro	27,274	27,694	27,444	24,308	24,251	24,284	2,966	3,443	3,160	10.9	12.4	11.5
Farmington LMA	16,937	16,954	17,349	15,465	15,341	15,689	1,472	1,613	1,660	8.7	9.5	9.6
Houlton LMA	8,199	8,247	8,370	7,427	7,416	7,537	772	831	833	9.4	10.1	10.0
Lewiston-Auburn MA	57,848	57,903	58,211	53,671	53,419	53,482	4,177	4,484	4,729	7.2	7.7	8.1
Lincoln LMA	3,619	3,631	3,643	3,234	3,235	3,251	385	396	392	10.6	10.9	10.8
Machias LMA	7,643	7,738	7,707	6,824	6,804	6,800	819	934	907	10.7	12.1	11.8
Madawaska LMA	2,810	2,770	2,835	2,571	2,542	2,599	239	228	236	8.5	8.2	8.3
Millinocket LMA	3,585	3,612	3,618	3,085	3,074	3,012	500	538	606	13.9	14.9	16.7
Pittsfield LMA	7,418	7,450	7,538	6,619	6,561	6,668	799	889	870	10.8	11.9	11.5
Portland-S. Portland-Biddeford MA	208,335	207,229	208,226	195,446	193,364	194,354	12,889	13,865	13,872	6.2	6.7	6.7
Portsmouth MA	9,205	9,175	8,904	8,751	8,668	8,460	454	507	444	4.9	5.5	5.0
Presque Isle LMA	23,746	23,790	24,012	21,503	21,420	21,590	2,243	2,370	2,422	9.4	10.0	10.1
Rochester-Dover MA	11,548	11,560	11,342	10,853	10,758	10,605	695	802	737	6.0	6.9	6.5
Rockland Micro	13,125	13,012	13,555	12,122	11,938	12,391	1,003	1,074	1,164	7.6	8.3	8.6
Rumford LMA	10,147	10,329	10,250	9,147	9,271	9,108	1,000	1,058	1,142	9.9	10.2	11.1
Sanford Micro	12,322	12,323	12,395	11,048	10,947	11,092	1,274	1,376	1,303	10.3	11.2	10.5
Skowhegan LMA	14,534	14,645	14,635	13,022	12,981	13,022	1,512	1,664	1,613	10.4	11.4	11.0
Waldoboro LMA	9,210	9,230	9,365	8,521	8,493	8,623	689	737	742	7.5	8.0	7.9
Waterville Micro	22,173	22,223	22,379	20,424	20,298	20,504	1,749	1,925	1,875	7.9	8.7	8.4
York LMA	16,486	16,450	16,223	15,313	15,167	15,004	1,173	1,283	1,219	7.1	7.8	7.5
<b>MAINE</b>	<b>695,862</b>	<b>696,044</b>	<b>698,592</b>	<b>643,160</b>	<b>638,760</b>	<b>641,372</b>	<b>52,702</b>	<b>57,284</b>	<b>57,220</b>	<b>7.6</b>	<b>8.2</b>	<b>8.2</b>
<b>UNITED STATES (000)</b>	<b>154,512</b>	<b>154,727</b>	<b>154,316</b>	<b>142,698</b>	<b>142,228</b>	<b>141,412</b>	<b>11,815</b>	<b>12,500</b>	<b>12,904</b>	<b>7.6</b>	<b>8.1</b>	<b>8.4</b>